Carpetright plc

Annual report and accounts 2008

Carpetright plc is Europe's leading specialist floor covering retailer. Since the first store was opened in 1988 the business has followed a controlled store expansion programme developing both organically and, in recent years, through acquisition within the UK and other European countries.

With our recent operational improvements which will enhance our resilience to market movements and our strong competitive position, the Board expects a continued growth in shareholder value.

Financial highlights 2008

	53 weeks ending 3 May 2008	52 weeks ending 28 April 2007	Change
Revenue	**£521.5m**	£475.9m	9.6%
Profit before tax	**£59.5m**	£67.0m	(11.2%)
Underlying profit before tax	**£62.1m**	£57.7m	7.6%
Basic earnings per share	**63.2p**	68.2p	(7.3%)
Underlying earnings per share	**63.5p**	58.3p	8.9%
Dividend per share	**52.0p**	50.0p	4.0%

Where this review makes reference to "Underlying" these relate to profit/earnings before profits/losses on property disposals and other non-recurring items.

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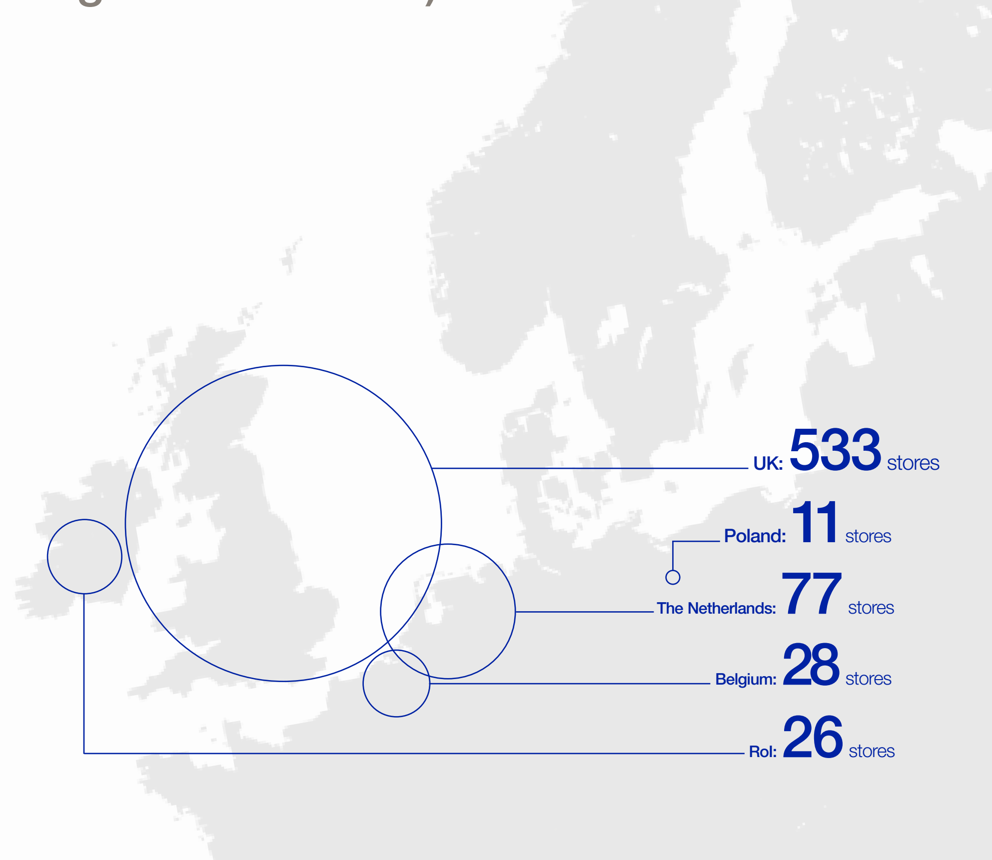
Group profile at 3 May 2008

The Group trades from 675 stores** across Europe and employs 4,281 staff.

The Group is organised into two geographical regions, the UK & RoI (comprising the UK and the Republic of Ireland) and the Rest of Europe (comprising The Netherlands, Belgium and Poland).



Store portfolio at 3 May 2008

UK & RoI		Rest of Europe**	
Carpetright stores*	460	The Netherlands stores	77
Concessions	61	Belgium stores	28
Storeys stores	38	Poland stores	11
Total	559	Total	116

UK & RoI | Rest of Europe

Overview 2008

UK & RoI		Rest of Europe**	
Revenue £m	452.7	Revenue £m	68.8
Underlying operating profit £m	58.0	Underlying operating profit £m	5.4
Employees	3,657	Employees	624
Trading space sq ft ’000	4,471	Trading space sq ft ’000	1,345

* Includes Carpetworld stores.
**Excludes one trial store under joint venture arrangement in Germany.

Chairman's statement

This year sees the twentieth anniversary of Carpetright. During that time the Group has grown at a strong pace and this year, despite adverse market conditions, I am pleased to report that we have produced yet another solid performance.

Total revenue for the 53 weeks ended 3 May 2008 has increased by 9.6% to £521.5 million. Underlying profit before tax has increased by 7.6% to £62.1 million, although after the impact of profits on property disposals less other non-recurring items, reported profit before tax has declined to £59.5 million. Similarly underlying earnings per share have risen by 8.9% to 63.5 pence although basic earnings per share has declined to 63.2 pence. Whilst the Group continues to be highly cash generative we opened a net 11 stores in addition to gaining 43 through acquisitions, and invested substantially in our new cutting and distribution centre and IT systems, closing the year with net borrowings of £57.5 million.

The Board is recommending a final dividend of 30.0 pence per share. Together with the interim dividend of 22.0 pence per share the total dividend for the period will be 52.0 pence per share, an increase of 4.0%.

During the year there have been several important developments which will drive future profitability. These have included:

Stores – 47 stores opened during the year including 39 in the UK and Republic of Ireland ("RoI"). The acquisition of Storey Carpets Limited ("Storeys") in May 2007 and Carpetworld Manchester Limited ("Carpetworld") in March 2008 also saw 30 and 13 stores respectively join the Group. After the closure of 36 stores, we are now trading from 559 stores in the UK and RoI and 116 stores across Europe, plus one under our new joint venture in Germany.

New ranges – the Group introduced several new ranges of carpets with a particular focus on mid-priced deep pile Saxony carpets and a continued improvement to our ranges of higher quality wool products. In addition we have seen improved sales from a wider range of rugs in the UK.

New cutting and distribution centre – all our cutting, distribution and UK central office functions have been relocated into the new facility in Purfleet, Essex allowing us to close four sites in April 2008. This new cutting and distribution centre enables us to reduce delivery times by two days and is an important element in Carpetright's future growth strategy by giving us the ability to double our capacity at minimal extra cost.

UK acquisitions – on 1 May 2007 we acquired Storeys for a total consideration of £19.7 million. Based in the north east of England and trading from 30 stores at the time of acquisition, this business had annual sales of approximately £30 million. Storeys is well known in the region and the brand has been retained. Since acquisition we have expanded the Storeys store footprint, simplified processes, improved the customer offer and increased operating margins.

On 31 March 2008 we acquired Carpetworld together with a portfolio of six freehold and long leasehold properties, for a consideration of £7.2 million, in addition to £7.7 million of net borrowings repaid. Based in the north west of England and trading from 13 stores at the time of acquisition, this business had annual sales of approximately £7.1 million. It is intended that these stores will ultimately trade under the Carpetright or Storeys retail brands. Since acquisition we have started to implement changes to bring this business into line with the Carpetright operating model.

European expansion – we have seen strong sales and profit growth in The Netherlands and Belgium and now have 11 stores trading in Poland. These businesses now represent 8.5% of our underlying operating profit.

At the end of 2007 we entered into a 50/50 joint venture arrangement in Germany, with one of the existing floor covering retailers, TTL. The joint venture is designed to utilise the key strengths of both businesses. The first trial store under the fascia "Carpri" was opened in April 2008 in Berlin. Our intention is to gain a greater understanding of this market whilst we consider further low risk expansion opportunities in the cities of Berlin and Dresden.

On 30 June 2008 we completed the €7.8 million acquisition of the trade and assets of Ben de Graaff Tapijt ("Ben de Graaff"), a floor coverings and curtain/blinds retailer in the south of The Netherlands. Trading from 11 stores this business has annual sales of approximately €15.0 million. The store base complements our existing geographical coverage, enabling us to accelerate the pace of expansion.

I am confident that we will continue to achieve good growth across Europe.

Board changes

Neil Page will join the Board on 14 July 2008 as Group Finance Director. Neil will replace Ian Kenyon who left the Company on 29 February 2008. In addition, Martin Toogood will be stepping down from the Board at the AGM. Since joining the Board in 2002 Martin's wide retail experience has been of particular benefit to us. We would like to thank Ian and Martin for their contributions over the last few years.

People

I thank all our staff for their continued commitment, contribution and loyalty throughout the year and extend a warm welcome to all the staff from the Carpetworld and Ben de Graaff businesses. The efforts of all our staff, who consistently provide excellent customer service, are a key success factor for our business.

Prospects

My fiftieth year of selling carpets has been a challenging one. Whilst the indicative offer for the Company, from a consortium headed by myself and other members of the senior management team, did not proceed, I remain as enthusiastic as ever. There is no doubt that the UK floor coverings market became more difficult, in line with other housing and DIY related sectors. This challenge has remained and I believe that the next year will be one of the most difficult I have seen. However, against this background we are continuing to invest for the future. Carpetright is well placed to weather this period with its strong competitive position, clear UK and European strategic plans, and continued focus on margin growth and strong cash generation.

I am confident that our strategy of providing a comprehensive offer with the widest product range, best prices and excellent customer service will continue to support future growth.

Lord Harris of Peckham
Chairman and Chief Executive

Business review 2008

Principal activities

Carpetright plc is Europe's leading specialist floor covering retailer, selling a wide range of carpets, rugs, vinyls and laminates together with associated accessories.

The Group trades from 675 stores organised and managed in two geographical segments. These are the "UK & RoI" (comprising the UK and the Republic of Ireland) and the "Rest of Europe" (comprising The Netherlands, Belgium and Poland). In addition, there is a new joint venture arrangement in Germany.

The Group aims to be the first choice for all consumers by offering the broadest range of floor coverings, at the keenest prices, with unbeatable customer service.

Business strategies

The primary financial objective of the Group is to deliver long-term sustainable growth in earnings per share and cash flow. We achieve this through the following strategies:

- Focusing on floor coverings, ensuring that we improve and develop our product ranges to provide consumers with comprehensive product choice at the best prices;
- Providing an inclusive offer which appeals to all segments of the market;
- Ensuring our customers receive excellent levels of service;
- Actively managing our store portfolio, by a mixture of new store openings in areas where we are not represented, coupled with store relocations in areas where we are either over-spaced or where new units are available which deliver better overall profitability;
- Expanding into additional European countries where market opportunities exist;
- Achieving market leading positions, and an increasing market share, in each country in which we trade through the addition of new, profitable stores;
- Improving margins by better sourcing, continuous cost control and efficient management of stock levels and working capital; and
- Continuing to invest in training and developing our people to maintain a competitive advantage.

Key performance indicators

We monitor our performance against the strategy by reference to a limited number of key indicators:

Like-for-like sales growth – calculated as this year's sales divided by last year's sales for all stores that are at least 12 months old at the beginning of our financial year. Stores closed during the year are excluded from both years. No account is taken of changes to store size or the introduction of third party concessions.

Gross margins – gross profit as a percentage of sales.

Store numbers and store space – the number of stores trading and their gross area, including both selling and warehouse space. Space occupied by sublet tenants is excluded.

Underlying operating margins – operating profit, excluding profits/losses on property disposals and other non-recurring items, as a percentage of sales.

Overview of Group financial performance

	2008 £m	2007 £m	% change
Revenue	**521.5**	475.9	9.6%
Underlying* operating profit			
– UK and Republic of Ireland	**58.0**	55.6	4.3%
– The Netherlands and Belgium	**6.8**	4.8	41.7%
– Poland	**(1.4)**	(0.9)	–
– Total	**63.4**	59.5	6.6%
Net finance charges	**(1.3)**	(1.8)	27.8%
Underlying* pre tax profit	**62.1**	57.7	7.6%
(Losses)/profits on property disposals and non-recurring items	**(2.6)**	9.3	–
Profit before taxation	**59.5**	67.0	(11.2%)
Underlying* earnings per share (pence)	**63.5**	58.3	8.9%
Basic earnings per share (pence)	**63.2**	68.2	(7.3%)
Net borrowings	**(57.5)**	(6.9)	–

*Where this review makes reference to "Underlying" these relate to profit/earnings before profits/losses on property disposals and other non-recurring items.

Progress against the Group's financial objectives has been challenging this year. Revenue increased by 9.6% in the year to £521.5 million with growth being achieved in both regions including a contribution of £30.1 million from Storeys and Carpetworld. The Rest of Europe grew faster than the UK & RoI and now represents over 13% of total revenue.

The Group opened 47 stores and closed 36, which together with the 30 and 13 stores acquired respectively with Storeys and Carpetworld, gave a net increase of 54 stores and a total store base of 675. Many of the new stores are either concession stores or are smaller format stores resulting in total space growing by 7.8% to just over 5.8 million square feet.

Underlying operating profit grew to £63.4 million, an increase of 6.6% on last year, with UK & RoI profitability increasing by 4.3%. Profits in The Netherlands and Belgium improved by 41.7% but these were offset, in part, by continued start-up losses in Poland which totalled £1.4 million. Underlying earnings per share increased by 8.9% to 63.5 pence.

Group profit before taxation decreased by 11.2% to £59.5 million with basic earnings per share decreasing by 7.3% to 63.2 pence, principally arising from non-recurring costs arising in the year.

Group underlying pre-tax profit £m

Year	£m
2004	65.0
2005	61.5
2006	56.7
2007	57.7
2008	**62.1**

Basic earnings per share (pence)

Year	pence
2004	68.8
2005	71.0
2006	65.0
2007	68.2
2008	**63.2**

Dividend (pence)

Year	pence
2004	44.0
2005	47.0
2006	49.0
2007	50.0
2008	**52.0**

The Group recorded a profit on property disposals of £7.0 million (2007: £9.3 million) as we continued to trade our property portfolio successfully. This has been offset by other non-recurring items, comprising post-acquisition reorganisation costs and asset write offs in Storeys, together with pre-opening and dual running costs, principally rent, rates and utility costs, in respect of the new cutting and distribution centre, ahead of it becoming fully operational in April 2008. These non-recurring costs totalled £9.6 million (2007: nil). The Group's strategy to relocate stores continues to deliver strong cash flow and lower the total rent exposure. The Board anticipates that property profits and cash flows will continue to be achieved on an ongoing basis and that there will be modest non-recurring costs incurred in the forthcoming period as a result of the Carpetworld integration.

The Group's operating cash flow was strong. This was supported by £20.0 million of proceeds from property disposals. Significant investments in the year included £22.3 million for the new cutting and distribution centre, £10.6 million in respect of freehold and long leasehold acquisitions, £32.2 million for the acquisition of Storeys and Carpetworld, and £4.7 million in respect of the continued rollout of Navision store IT systems. Net debt increased by £50.6 million over the year and totalled £57.5 million at the year end.

Net finance charges decreased to £1.3 million, with the impact of higher levels of net borrowings more than offset by £0.9 million (2007: £nil) of finance charges capitalised as a result of the change in accounting policy announced at the time of our Interim statement.

Delivering our vision…

→Comprehensive product choice
→Growing our store base
→Delivering great value
→Offering outstanding customer service

Achievements in 2008
Cut-length carpet ranges have been further extended and a wider range of rugs has been introduced. The acquisition of Storeys has enabled us to extend our wood and laminate offering. The ranges in each country have been adjusted to suit local markets and capture new customer trends.

Goals for 2009
The ranges within markets and formats will continue to be adjusted to suit local conditions and trends. Increasing focus will be put on the "Super Savers" value range and a wider vinyl offering in the UK.

UK and Republic of Ireland – Operational review

Objectives
We have reviewed our key objectives for the UK & RoI, and the targets that we will look to achieve in the next three years:

Stores – expand Carpetright and Storeys to 550 stores (excluding concessions) across the UK & RoI, particularly in those areas where we are geographically under-represented. We will continue to improve the portfolio mix by relocating from A1 to lower cost bulky goods parks wherever possible, and ensuring we have the right store sizes and formats to suit local market conditions.

Concessions – continue to build on the current concession operations ("In-House" and "Carpetright" branded) and seek opportunities to take over the operation of carpet departments in appropriate host stores;

Product – maintain our leading position in carpets and vinyl as well as growing our market share and proposition in other floor coverings. We will continue to expand our exclusive ranges and enlarge our value offerings;

Delivering our vision…

→Comprehensive product choice
→Growing our store base
→Delivering great value
→Offering outstanding customer service

Achievements in 2008

The Group has opened a net 11 stores in the year, which together with 30 and 13 stores from the Storeys and Carpetworld acquisitions respectively, means we now trade from 675 stores. In addition, we trade from one trial store under our new joint venture arrangement in Germany.

Goals for 2009

The Group plans to increase its store base by a net eight in the UK & RoI and 17 in the Rest of Europe. This will take the Group's store base to 700 including 14 stores in Poland which should provide a solid base for profitable expansion. In addition we plan to open further stores, dependent upon trial store performance, in Germany.

UK & RoI: Like-for-like (%)

Period	%
H1 06–07	0.9
H2 06–07	–3.6
H1 07–08	–3.4
H2 07–08	–1.8

UK & RoI: Underlying operating margin (%)

Year	%
2004	16.3
2005	14.7
2006	13.8
2007	13.3
2008	12.8

Service – following the relocation into our new cutting and distribution centre, ensure we reduce our delivery lead times for the benefit of our customers and make this a source of competitive advantage;

Costs – focus on reducing operating costs through a combination of space reduction, the store relocation programme and appropriate sublet opportunities, and lower administration costs following the implementation of the new in-store computer system which is expected to be complete by October 2008; and

Storeys and Carpetworld – the initial objective in respect of both acquisitions has been to develop the ranges and store format to improve customer choice and service. In addition we are simplifying the operations by sharing the cutting, distribution and administration activities with Carpetright's current operations. Store expansion, focused on Scotland and the north of England, will then follow.

Financial results

UK & RoI – Key financial results	2008 £m	2007 £m	Change
Revenue	452.7	418.1	8.3%
Gross profit	284.1	258.8	9.8%
Gross margin %	62.8%	61.9%	0.9pp
Underlying operating profit	58.0	55.6	4.3%
Underlying operating margin %	12.8%	13.3%	(0.5pp)

Revenue in the UK & RoI was 8.3% ahead of last year at £452.7 million driven principally by the Storeys acquisition. The 53rd week contributed 1.6% to the revenue increase in the period. Like-for-like sales declined by 2.7% with a decline in the first half of 3.4% (2007: increase 0.9%) and a decline in the second half of 1.8% (2007: decline 3.6%). Storeys and Carpetworld performed substantially in line with our expectations delivering revenue of £30.1 million. This performance can be viewed against a market which, we believe, increased by less than 1% in value terms and so represents a further increase in market share.

Gross profit increased by 9.8% to £284.1 million with a further increase in the gross margin to 62.8%. This is 0.9 percentage points ahead of last year and has been achieved through improved supplier rebates, lower levels of stock loss and better management of the distribution network, offset by the impact of the strengthening Euro on product cost prices and lower initial margins in Storeys and Carpetworld. The Storeys margin continues to improve as it benefits from core Carpetright terms although with a different sales mix its margin will continue to be lower than that achieved in the rest of the UK & RoI business. The margin in Carpetworld will increase further as we standardise formats and terms.

Underlying operating profit increased by 4.3% to £58.0 million. The 53rd week in the financial year had an overall benefit to operating profit of £0.7 million. The underlying operating margin reduced by 0.5pp to 12.8% which can be analysed as follows:

Underlying operating margin last year	13.3%
Impact of Storeys and Carpetworld	(0.5%)
Core business	
Increase in gross margin	1.8%
Increase in store occupancy costs	(0.7%)
Decrease in store staff costs	0.3%
Increase in advertising	(0.4%)
Increase in depreciation	(0.4%)
Increase in other costs	(0.6%)
Underlying operating margin this year	12.8%

Store occupancy costs increased as a percentage of sales as a result of lower like-for-like sales relative to fixed expenses and increases in rent and rates reflecting the year-on-year space growth. In addition, the business was impacted by increasing energy and fuel costs, although the impact of fuel price increases was partly mitigated by improvements to the distribution network following the move to the new cutting and distribution centre.

Staff costs decreased as a percentage of sales with inflationary increases offset by a reduction in headcount of over 100 in stores (excluding Storeys and Carpetworld) and the central office. We continue to ensure our managers remain well rewarded recognising the significant contribution they make to sales. The business incurred higher advertising spend to support stronger promotions.

Dual running costs incurred in the start-up phase of the new cutting and distribution centre have been treated as non-recurring items and have been excluded from underlying profit.

Sales and marketing

The specialist floor covering market has declined in volume terms over the last year, impacted by a poor economic environment, deteriorating consumer confidence and a decline in mortgage approvals and resultant housing transactions. Manufacturers and retailers have seen the decline accelerate over the year and we believe many independents have ceased trading. As a result, we are continuing to grow market share.

There remains a surplus of supply to the market and it is likely that manufacturers will come under increasing pressure. We continue to work with a small number of selected manufacturers who can meet the demands of our customers in terms of the latest ranges, the best quality and at the keenest prices.

The general trend in our business towards cut-length carpets, rather than roll-stock, has slowed in the year. There has been a gradual increase in the average selling price over the year, in response to cost price inflation impacted by the strength of the Euro. Other trends we have seen have been a gradual transition from light natural colours towards darker natural colours.

We have introduced a number of higher quality ranges, which command higher prices, and these are increasingly being bought by our customers who recognise the value for money that these products deliver.

The laminate and wood market appears to have stabilised over the last year. Laminate remains a small part of our business (c 2%) and our offer comprises a small range of take-away product and a more extensive range that can be ordered. The Storeys business now brings a wider range of laminate and wood products to our offering.

Throughout the year, we have sourced a wider range of rugs, principally from India and China. Our rug sales now represent 2.5% of our total business. Our medium-term target is to grow rug sales to nearer 5% of total revenue.

In the second half we decided to exit from our "Carpetright at Home" business that offered insurance and retail customers the opportunity to choose carpets from their home. Instead, our insurance business will be run through an independent third party. By doing this we will continue to achieve sales from insurance customers but with a lower central cost and improved cash flows versus dealing with insurance companies directly.

In the forthcoming year, Carpetright, together with several carpet manufacturers and distributors, will be participating in "The Fifth Wall" project, to promote the generic benefits of carpet via a major consumer advertising and PR campaign. We anticipate that this will help re-invigorate interest in carpet in the marketplace.

Store portfolio development

We continue to develop our store portfolio :

	Store numbers					Sq ft '000	
UK & RoI store base	April 2007	Openings	Closures	Other	**May 2008**	April 2007	**May 2008**
Carpetright*	439	21	(13)	13	**460**	3,930	**3,963**
Concessions	73	10	(22)	–	**61**	154	**121**
Storeys	–	8	–	30	**38**	–	**387**
	512	39	(35)	43	**559**	4,084	**4,471**

*Including Carpetworld stores.

In response to the tougher market conditions, the last 12 months has seen a slow-down in the rate of store openings. There has been a net 9% increase in the number of stores with 39 new openings as well as 43 from business acquisitions. All our new stores take time to mature and we expect to see stronger sales from them in the year ahead. At the same time we closed 35 stores, either as part of our ongoing programme to move to lower cost locations, or because the stores did not contribute to our overall profitability.

Total space grew by 9.5% with the average store size now 8,000 sq ft, which is a slight increase on the prior year due to larger store sizes in Storeys and Carpetworld. In the 2009 financial year we anticipate opening a net eight stores with an increase in average space of approximately 2%.

As we have previously outlined, there is a significant opportunity for us to generate cash, make profits, improve store locations and reduce our ongoing rent bill by moving from A1 retail parks to bulky goods parks. During the year, we negotiated to relocate from two A1 parks. Our portfolio is now broadly split 40/60 in relation to occupancy on A1 or bulky goods parks. In addition we are looking to downsize from 10,000 square feet plus units to smaller units on current parks or through relocations. Where this is not possible, we will sublet space to concessions. During the year, we have downsized or relocated in three such locations and we believe that there is an opportunity to downsize in excess of 100 locations.

Rent inflation is being mitigated to some extent by the introduction of Sleepright, a start-up bed concession, into a number of our stores. These units occupy around 1,200 sq ft of space per unit. At year-end, 83 stores included a Sleepright concession and we anticipate the format will be rolled out to around a further 25 stores in the coming year. These concession units help to reduce operating costs and also provide additional footfall.

Since the Group acquired Storeys and Carpetworld, a large number of changes have been made to improve the underlying businesses. Staff numbers have been reduced by over 140 since acquisition and store layouts and product ranges have been improved. These changes have, at times, caused some disruption but leave the stores well positioned for the future.

The Republic of Ireland remains a key growth opportunity with 26 stores including one concession trading at the year end. The performance of these stores continues to improve and we remain on course to reach our medium term target of 30 stores.

Operational initiatives

We continue to invest in the three key service areas:

- The in-store experience including the new store computer system
- The effectiveness of the supply chain
- The quality of our service and, in particular, the fitting service

In the stores, we have continued the rollout of rug display areas and the introduction of energy efficient lighting in the roll-stock areas, giving the stores a much fresher look. We have continued to review our point of sale posters and price tickets to ensure they properly communicate the great value that we offer.

The new store computer system, Navision, which forms part of the major IT investment that we have made over the last three years, continued to be rolled out during the year. At the year-end it was in 417 stores and we are converting approximately 10 stores per week. This continuing rollout has enabled UK store staffing levels to be reduced by over 90 people since May 2007. The rollout is expected to be complete by October 2008. The benefits include better management information, improved stock control and an improved customer order process.

The supply chain has performed well throughout the year and store staff have been able to sell with confidence. The Group moved into the new facility in Purfleet, Essex in January which accommodates the Group's cutting centre, distribution hub and central offices. This has allowed us to close four sites by the end of April 2008.

The benefits of this investment are:

- More efficient goods-in and production processes;
- Lower transport costs as carpets will now be cut and despatched to store from the same site;
- Faster delivery times to stores of cut-length orders;
- In-house production for the first time of cardboard "inner tubes" for individual carpet orders, utilising waste cardboard;
- Lower labour costs as there will be less manual handling through the use of increased automation;
- In-house cutting of vinyl at a lower all-in cost; and
- Improved communication and interaction between central support office, cutting and distribution teams.

These savings will offset the additional leasing costs of the new site. As the business grows the new site will be able to handle additional volume with a minimal increase in costs.

The quality of fitting continues to improve and independent fitters have been found to support each new store. Ensuring quality fitters are available for our customers remains a key priority and the business continues to invest in the "Fitters Academy" with 163 fitters assessed in the past year.

There is an increasing emphasis in the market on the importance of the service offer. Our customers are now able to make comments on service via email as well as the telephone, and system improvements allow us to capture customer service comments more easily. We continue to train our Store Managers to handle complaints effectively and we treat all feedback as an opportunity to improve our service offering further. Similarly, we have been providing appropriate training and courses for our estimators to enhance the customer experience.

Storeys

On 1 May 2007, the Group acquired Storey Carpets Limited for a total consideration of £19.7 million, of which £0.7 million was paid in May 2008. Storeys comprised 30 stores at the time of acquisition, primarily located in north east England, and it has been trading for over 80 years. We are trading Storeys as a standalone business but we have consolidated its administrative functions with those of Carpetright. By the year end, we had added eight further stores, simplified processes, improved the customer offer and increased gross margins in this business.

Carpetworld

On 31 March 2008, the Group acquired Melford Commercial Properties Limited, the parent company of Carpetworld Manchester Limited ("Carpetworld") for a total consideration of £7.2 million plus £7.7 million of debt repaid. Carpetworld comprised 13 stores at the time of acquisition, primarily located in north west England including four freehold and two long leasehold properties, valued at £12.5 million. As with Storeys, since acquisition we have started to simplify operating processes and improve operating margins. It is intended that this business will ultimately be split across the Carpetright and Storeys formats.

Summary and outlook

The last year has been more challenging than we anticipated with the deteriorating economic environment, a decline in consumer confidence and a reduction in housing transactions having adverse impacts on revenue. We remain cautious about the short-term prospects but are confident that the investments we are making in our stores, ranges, new cutting and distribution centre and IT systems will all support future growth.

Rest of Europe: Underying operating margin – The Netherlands and Belgium (%)

Year	%
2004	3.3
2005	5.6
2006	7.1
2007	8.5
2008	**10.2**

Rest of Europe – Operational review

Objectives

The Rest of Europe continues to grow as a percentage of the overall Group. We have set ourselves the following medium-term objectives:

- Grow our store base to 130 stores across The Netherlands and Belgium;
- Achieve £10 million profit from The Netherlands and Belgium through a mixture of sales growth, improvements in the gross margin and rigorous cost control;
- Expand our Polish store base to 20 stores and achieve at least breakeven;
- Through our pilot stores under our joint venture arrangement in Germany, gain a greater understanding of opportunities in this market; and
- Identify, evaluate and, where appropriate, exploit opportunities to open stores in other European countries.

Financial results

Rest of Europe – Key financial results	2008 £m	2007 £m	Change
Revenue			
– The Netherlands and Belgium	**66.7**	56.8	17.4%
– Poland	**2.1**	1.0	110.0%
– Rest of Europe	**68.8**	57.8	19.0%
Underlying operating profit			
– The Netherlands and Belgium	**6.8**	4.8	41.7%
– Poland	**(1.4)**	(0.9)	–
– Rest of Europe	**5.4**	3.9	38.5%
Underlying operating margin %			
– The Netherlands and Belgium	**10.2%**	8.5%	1.7pp
– Poland	**–**	–	–
– Rest of Europe	**7.8%**	6.7%	1.1pp

Delivering our vision…

→Comprehensive product choice

→Growing our store base

→**Delivering great value**

→Offering outstanding customer service

Achievements in 2008

The Group has continued to offer customers outstanding promotions throughout the year with prices reduced by up to 60%. This has been achieved by improving terms from suppliers.

Goals for 2009

The Group will continue to develop strong promotions and ensure customers are offered great value across all countries, whilst retaining outstanding customer service.

Delivering our vision…

→Comprehensive product choice
→Growing our store base
→Delivering great value
→**Offering outstanding customer service**

Achievements in 2008
The quality of the fitting service, undertaken by our independent carpet fitters, together with the effectiveness of our new cutting and distribution centre, has enabled us to improve service to our customers. In the stores we are nearing the end of the rollout of our new in-store computer system (Navision) which is streamlining our order administration.

Goals for 2009
We intend to complete the rollout of Navision and ensure that our new cutting and distribution centre is fully operational. This will reduce the delivery lead times and provide increased capacity.

Revenue in the Rest of Europe was 19.0% ahead of last year at £68.8 million. In local currency terms the improvement was 12.7%. Like-for-like sales in local currency increased by 6.7% in The Netherlands and Belgium, and by 11.8% in Poland. Gross profit increased by 21.9% to £39.0 million with an improvement in the gross margin in The Netherlands and Belgium of 1.4 percentage points on the back of improved rebates as volumes increased, offset by increased promotional activity.

Costs were tightly controlled with most of the increase attributable to new space and inflationary pressures.

The region recorded an underlying operating profit of £5.4 million, an increase of 38.5% on last year. The underlying operating profit in The Netherlands and Belgium increased by 41.7% to £6.8 million with operating margins increasing to over our previously stated target of 10%. This was partially offset by continued losses in Poland of £1.4 million (2007: £0.9 million loss). The results of the first store in Germany, which opened in April under the joint venture arrangement with TTL, were negligible.

Store portfolio development

The store expansion programme continued during the year with eight stores opening. The portfolio is now as follows:

	Store numbers				Sq ft '000	
Rest of Europe store base	April 2007	Openings	Closures	**May 2008**	April 2007	**April 2008**
The Netherlands	75	3	(1)	**77**	903	**895**
Belgium	28	–	–	**28**	347	**335**
Poland	6	5	–	**11**	63	**115**
	109	8	(1)	**116**	1,313	**1,345**

Total space is impacted by further subletting; we continue to assess sublet opportunities for the business where we have excess space, with 21 now completed in The Netherlands and Belgium.

In addition, a pilot store has been established in Germany operating through a 50/50 joint venture with the German flooring retailer, TTL.

The plans for the current year include a further three stores in The Netherlands and three stores in Poland. In addition, on 30 June 2008 the acquisition of Ben de Graaff has seen a further 11 stores join the portfolio in The Netherlands.

Operational initiatives

The Netherlands and Belgium
The key focus throughout the last year has been the ongoing improvement of in-store product offers, together with increased promotional activity, and a controlled store opening programme in The Netherlands. Business in both countries has been strong, particularly in The Netherlands, building on the good performance we achieved last year. Our brand awareness continues to grow, resulting in increased footfall and sales conversion.

In The Netherlands, the focus has been on a strong promotional programme. The strength of our offer, including the use of single day double discount events, continues to enable us to outperform the competition and we estimate that we have once again increased our market share, with much of this growth attributable to a continued improvement in our customer conversion rate.

In Belgium we identified, following market research, that the stores in the French speaking region could be targeted more specifically to the local consumer. As a result specific changes were made to the ranges which has led to improved sales and margin growth.

We have seen a shift in the sales mix in The Netherlands and Belgium towards rugs, vinyl and laminate in particular. These categories are more important than in the UK & RoI, with laminate alone representing 24% of total revenue. We have extended the product range to widen customer choice and our advertising strategy has evolved to ensure that we are not perceived as just a carpet specialist. We will look to grow sales from these categories throughout 2008/9 whilst we continue to develop the best carpet ranges for these countries.

Ben de Graaff

On 30 June 2008, we completed the acquisition of the trade and assets of Ben de Graaff Tapijt, a leading floor coverings and curtains/blinds retailer in the south of The Netherlands, for a total consideration of €7.8 million. Ben de Graaff comprises 11 stores and has been trading for 35 years. Revenue is approximately €15 million per annum. Our initial objectives are to implement appropriate changes to simplify processes, and enhance operating margin with a strong sales and customer service focused culture. Stores will be converted to the Carpetright brand in those locations where we have no existing presence, but where catchments overlap, the Ben de Graaff format will remain.

Poland

Progress in Poland continues to be steady, with the Group trading from 11 stores at the year-end, an increase of five in the year. Encouragingly we have seen like-for-like sales in local currency of nearly 12% with the best performance from the longest established stores. Most sales continue to be in either rugs or take-away roll-stock carpet but the offer continues to evolve and we have been pleased with the clearer product segmentation in our most recent openings.

Securing suitable new sites has continued to be challenging. We anticipate opening three stores in the year ahead, and as the number of stores increases we will see awareness of the brand grow, which will in turn support revenue growth. During the year we have critically reviewed the store layout and staffing levels for each store. As a result we have reduced the number of people employed in each store and reorganised the stores to ensure clearer category segmentation.

Germany

At the end of 2007 we entered a 50/50 joint venture agreement with TTL, one of Germany's leading floor covering retailers. The joint venture is a pilot for Carpetright in this market. The joint venture utilises the key strengths of both the businesses, with Carpetright providing store design and layout, fixtures and point of sale material as well as staff training. TTL will provide store location, property negotiation, shop fitting, staff recruitment, advertising and central accounting support. In April 2008 the first store, branded "Carpri", opened in Berlin. Our current intentions are to open a further three stores in the next financial year.

Summary and outlook

The performance in the Rest of Europe over the last year has been strong and the growth potential remains solid, particularly with the acquisition of Ben de Graaff in The Netherlands. In the current year we expect to grow the store base by a further 17 stores across the region, including 11 from Ben de Graaff but excluding Germany and continue to grow our market share in each market.

The Group will continue to drive sales and profit in The Netherlands and Belgium in the year ahead. In Poland the focus will be on driving sales in the existing stores and ensuring the format supports profitable expansion.

Financial review 2008

Objectives

The Group's finance function has the following objectives:

- Manage effective financial reporting and control of the Group's activities including implementation of new accounting standards and policies;
- Manage the Group's taxation activities ensuring that appropriate taxation policies and practices are adopted across the Group;
- Manage the Group's treasury activities to ensure that funds are always available to meet the short- and long-term business needs at the lowest possible cost; and
- Ensure interest rate and foreign exchange risks are minimised.

Financial results

	2008	2007	% Change
Taxation rate %			
– Underlying	**30.8**	31.4	0.6pp
– Effective	**28.1**	30.8	2.7pp
Earnings per share (pence)			
– Underlying	**63.5**	58.3	8.9%
– Basic	**63.2**	68.2	(7.3%)
Dividend per share			
– Proposed and paid (pence)	**52.0**	50.0	4.0%
– Cover (times)	**1.22**	1.36	(10.3%)
Net borrowings (£'m)	**57.5**	6.9	–
Pension deficit (£'m)	**1.3**	1.8	(27.8%)
Interest cover (incl capitalised interest) (times)	**27.6**	38.2	(27.7%)

Taxation

The effective tax rate on profits is 28.1% (2007: 30.8%). This has declined year-on-year principally due to reductions in the UK corporation tax rate from 30% to 28% in April 2008 impacting deferred tax and the recognition of a deferred tax asset in respect of historic losses in Belgium. The underlying rate is stated after removing the impact of the tax on profits on property disposals and non-recurring items, as well as the impact on deferred tax of the 2% reduction in the UK corporation tax rate. The ongoing effective rate is expected to remain slightly higher than the combined statutory rate for the Group due to a number of disallowable items in relation to the Group's freehold properties and other small items.

Earnings per share

Basic earnings per share decreased by 7.3% to 63.2 pence, reflecting a 7.6% decrease in earnings. Underlying earnings per share increased by 8.9% to 63.5 pence. Underlying earnings have increased by 8.6% after removing the effect of profits on property disposals and other non-recurring items together with the tax thereon, as well as the impact of the 2% reduction in UK Corporation tax on deferred tax balances. In addition there has been a reduction in the average number of shares of 0.3%. The Group purchased 750,000 of its own shares for cancellation at an average price of 858 pence during the year. The total consideration for the shares was £6.5 million including fees and taxes. The average number of shares in issue was 67.7 million and at the year-end the Group had 67.2 million shares in issue.

Dividend

The Board is proposing a final dividend of 30.0 pence per share (2007: 30.0 pence), bringing the full year dividend to 52.0 pence (2007: 50.0 pence) an increase of 4.0%. The final dividend will be paid on 26 September 2008 to shareholders on the register on 12 September 2008. Dividend cover, based on basic earnings per share, is 1.22 times (2007: 1.36 times). The Board remains comfortable with this level of cover which reflects the Board's confidence in the Group's ongoing cash generating ability.

Cash flow and net borrowings

Summary cash flow	2008 £m	2007 £m
Operating cash inflows	**72.7**	81.8
Net finance charges	**(2.2)**	(1.6)
Taxation paid	**(15.1)**	(15.9)
Dividends	**(35.2)**	(33.9)
Payment for tangible and intangible assets	**(46.5)**	(33.2)
Proceeds on disposal of tangible assets	**20.0**	24.8
Free cash flow	**(6.3)**	22.0
Purchase of own shares	**(6.5)**	(0.4)
Acquisitions	**(32.2)**	–
Other (including foreign exchange differences)	**(5.6)**	0.6
Movement in net borrowings	**(50.6)**	22.2
Opening net borrowings	**(6.9)**	(29.1)
Closing net borrowings	**(57.5)**	(6.9)

Net borrowings increased year on year by £50.6 million reflecting the impact of investment in fixed assets of £46.5 million as well as business acquisitions of £32.2 million. Excluding the investment in the new cutting and distribution centre the Group continued to be highly cash generative and proceeds from the sales of freehold and long leasehold properties and the surrender of leases were very strong at £20.0 million. This includes £6.7 million received from the sale of the Group's warehouse in West Thurrock and £5.4 million from the sale of the store in Castletown.

Capital expenditure comprised £10.6 million on long leaseholds and freeholds, £22.3 million on the new cutting and distribution centre, £8.9 million on stores and £4.7 million on the new IT systems. There was a working capital cash outflow of £1.1 million with decreased inventories being offset by an increase in receivables and a decrease in payables.

Current liquidity

At the year-end the Group held cash balances of £8.9 million (2007: £20.7 million) in a combination of Sterling, Euros and Polish Zlotys.

Gross borrowings at the balance sheet date were £66.4 million (2007: £27.7 million) of which £55.3 million is term based with the balance of £11.1 million being drawn down from overdraft facilities. The Group has further undrawn, committed facilities of £39.8 million at the balance sheet date. These are principally available as on-demand overdraft facilities and are subject to annual review.

The Group is in compliance with its bank covenants and has no restriction on funding or investment policy in the foreseeable future.

Capital structure and treasury policy

The Group's Treasury policy is intended to ensure that there are adequate financial resources for the development and growth of the business whilst financing its operations at the lowest cost and minimising foreign exchange and interest rate risk. The objective is to achieve this without operational disruption or recourse to complex financial instruments.

The strategy and policies are approved by the Board. The Group does not engage in speculative transactions. The key financial risks relate to meeting debt repayments as they fall due, interest rate risk and limited foreign currency exposure.

The Group's term based borrowings are a direct result of the acquisition of businesses in the UK, and the subsequent purchase of further freehold properties in The Netherlands. The borrowings are denominated in Sterling and Euros. The Group anticipates that there will be sufficient Euro cash flow to pay both the interest on the Euro borrowings as well as the capital repayment amounts due over the life of the underlying loan. The Group fixes the interest rate on at least 75% of term borrowings via interest rate swap arrangements to provide interest cost certainty and reduce risk.

Any current account deposits generated from the strong operational cash flows of the Group are invested in the currency in which they are received unless there is a clear need for conversion. During the year the Group invested these deposits in a combination of overnight and longer term investment graded accounts arranged via the Group's principal bankers in the countries in which it trades.

Accounting policies and standards

The principal accounting policies of the Group are set out in Note 1 to the accompanying financial statements together with a description of certain key measures and policies that are included in the review of the trading results above. During the year the Group changed the accounting policy to capitalise interest on qualifying tangible fixed assets.

Interest of £0.9 million has been capitalised during the period of which £0.1 million related to the prior year. As the prior year adjustment is immaterial the comparatives for the financial year have not been restated.

Calendar

The Group's financial reporting year ends on the nearest Saturday to 30 April. The UK & RoI accounts for next year will therefore be for the 52 weeks ending 2 May 2009. The Rest of Europe will continue to account on a calendar month basis to 30 April.

Details of all the calendar dates for the 2008/9 financial year can be found on page 76 of the report as well as on our website www.carpetright.plc.uk

Risks and uncertainties

The Board has a policy of continuous identification and review of key business risks and oversees the development of processes to ensure that these risks are managed appropriately. In the day to day operation of our businesses and the development of the Group both in existing and new markets, we face risks and uncertainties, some of which are unique to the sector in which we operate. The risk factors addressed below are those which we believe could adversely affect us, potentially impacting the operations, revenue, profit, cash flow or assets of the Group. Additional risks and uncertainties currently unknown to us, or which we currently deem immaterial may also have an adverse affect on the Group.

We use our risk management process to identify, monitor, evaluate and escalate such issues as they emerge, enabling the Board to take appropriate action wherever possible in order to control them. The Corporate Governance report on pages 19 to 23 describes the systems and processes through which the Directors manage and mitigate risks.

Economic and market conditions

The economy is a major influence on consumer spending with trends in housing transactions, consumer confidence, mortgage approvals, consumer debt levels and interest rates impacting consumer demand for discretionary spending on the home. It is management's experience from historic downturns that the carpet market remains relatively stable in value terms over time and this trend is expected to continue. European expansion not only provides opportunities for sustainable growth and returns but also economic diversification.

Business strategy development and implementation

If the Board adopts the wrong business strategy or does not implement its strategies effectively the business may suffer. The Board needs to understand and properly manage strategic risk in order to deliver long-term growth for the benefit of all Carpetright's shareholders.

Employee risk

Carpetright's businesses depend on a high level of input from all levels of staff. The employee risks are split between:

Management risk

The Group relies on key personnel including the Executive Directors, Senior Managers and Store Managers. Procedures are in place to identify and retain key personnel and the Board regularly reviews succession planning for the senior roles.

Customer service risks

Carpetright customers expect and receive a high level of customer service. The Group employs over 4,000 staff, mostly based in stores, and utilises the services of over 2,000 independent carpet fitters who provide this customer service. The Group continues to ensure that all staff are properly recruited, trained and rewarded so that high levels of customer service are maintained.

Entering new markets

Expansion into additional European countries provides the opportunity for substantial long-term growth and economic returns for shareholders. This represents a good opportunity for the Group but exposes it to new cultural and regulatory risks. Also failure to identify, conduct appropriate due diligence and appropriately integrate, acquisitions, particularly in new geographical markets could have an adverse impact on the Group. The Group only enters new markets where the potential long-term growth and returns outweigh the risks.

Cost inflation

The historic location of the principal carpet manufacturers in Europe means the Group is exposed to fluctuations in the value of the Euro. The Group seeks to mitigate this risk by putting in place appropriate arrangements with manufacturers and proactively managing its selling prices to maintain margins.

There are a number of significant cost pressures affecting all out of town retailers. Many of these costs are growing by more than the rate of inflation, putting continued pressure on operating margins. The strategy of relocating from expensive A1 locations to lower cost bulky goods parks helps alleviate some of this risk. In addition, we continually review our energy consumption across our stores and central locations and the fuel costs of our distribution fleet.

Supply chain and business continuity

Carpetright's revenues and cash flows are dependent on the continued operation of its cutting and distribution facilities. As noted in this report the new cutting and distribution centre in Purfleet has centralised these activities.

New business continuity plans are being prepared and arrangements put in place to mitigate significant risks arising.

IT systems

Carpetright is dependent upon the continued availability and integrity of its computer systems. The new systems being implemented within the UK & RoI are more robust than those that are being replaced and will improve the overall controls over data integrity. The central systems are mirrored in a separate location as part of a systems business continuity plan.

Board of Directors

Executive Directors

Lord Harris of Peckham (65)

Chairman and Chief Executive

Lord Harris is now in his 51st year in carpet retailing and is one of the best known names in the business. He was Chairman and Chief Executive of Harris Queensway plc from 1964 until the company was taken over in 1988. Lord Harris is a Non-Executive Director of Arsenal Holdings plc and Arsenal Football Club plc. He was a Non-Executive Director of Great Universal Stores plc for 18 years until July 2004 and was a Non-Executive Director of Matalan Plc for two years.

John Kitching (57)

Chief Executive Officer, Europe

John Kitching joined Carpetright on its formation in 1988, having occupied a number of senior management roles within Harris Queensway. He was appointed Sales Director in 1992 and Managing Director in 1996. John has overall responsibility for European operations and was appointed Chief Executive Officer, Europe in June 2005. John is also Chief Executive of the Storey Carpets chain which was acquired in May 2007.

Christian Sollesse (49)

Managing Director, UK and Republic of Ireland

Christian Sollesse joined Carpetright in 1995 having worked for many years in senior retail management roles in Harris Queensway and Harris Interiors. Christian was appointed Sales Director in 1997 with responsibility for sales and retail management. In June 2005 Christian was appointed Managing Director, UK and Republic of Ireland, taking responsibility for trading operations.

Martin Harris (39)

Group Commercial Director

Martin Harris joined Carpetright in 1991, previously having been an Executive Director of Harveys Furnishing Group Limited. Martin became Marketing Director in 1997, resigning to become a Non-Executive Director in 1998. In November 2002 Martin resumed Executive Director responsibilities as Buying Director and was appointed Commercial Director when he assumed responsibility for Marketing in 2003. Martin took on responsibility for supply chain and logistics in June 2005 and was responsible for the move to Carpetright's new central cutting and distribution centre and offices in early 2008.

Non-Executive Directors

Martin Toogood (61)

Non-Executive Director

Martin Toogood joined the Board in 2002. He has wide retail experience at the highest level in several companies including BhS, Habitat, Heals and B&Q, where he was Chief Executive until 2002. Until spring 2007 he was Chairman and Chief Executive Officer of ILVA, the Danish furniture retailer.

Baroness Noakes (59)

Non-Executive Director

Baroness Noakes, a chartered accountant, joined the Board in 2001. Baroness Noakes is a Non-Executive Director of Severn Trent plc and the English National Opera, and a trustee of the Reuters Founders Share Company. Previously she was with KPMG for 30 years and was the Senior Non-Executive Director of the Bank of England. Baroness Noakes chairs the Audit and Nomination Committees and is the Senior Independent Director.

Simon Metcalf (65)

Non-Executive Director

Simon Metcalf joined the Board in 2004. He is a chartered accountant and worked in corporate finance as a Director of County Bank and its successor organisations for over 25 years, latterly as Vice Chairman of Hawkpoint Partners. He is currently a Non-Executive Director of The Collinson Group, Professional Travel Insurance Limited and a number of other private companies. He is a trustee of the Bankside Gallery. Simon chairs the Remuneration Committee.

Guy Weston (47)

Non-Executive Director

Guy Weston joined the Board in 2005. Guy began his career as a management tutor and business analyst before entering the food and beverage industry, working for R Twining & Co., Jacksons of Piccadilly and The Ryvita Company. Currently, Guy is Chairman of Heal's PLC and Wittington Investments Ltd, a Director of the Thrombosis Research Institute and a Trustee of the Garfield Weston Foundation.

Geoff Brady (54)

Non-Executive Director

Geoff Brady joined the Board in March 2007. He has had a career of over 30 years in the retail sector including Chief Executive Officer – Allied Carpets plc, Managing Director – Daimler Chrysler, Retail UK and Commercial Director – Superdrug plc. He was a Deputy Chairman of Matalan Plc and a Non-Executive Director of Floors-2-Go Plc, prior to both companies' return to private ownership. He is currently a Non-Executive Director of Fairline Boats Ltd and Saul D. Harrison & Sons plc.

Directors' report for the period to 3 May 2008

The Directors have pleasure in presenting their Annual Report, together with the accounts, for the period ended 3 May 2008.

1 Business review and principal activity

The principal activity of the Group and Company is that of selling floor coverings, principally carpets, vinyls, laminates and rugs. At 3 May 2008 the Group traded from 559 outlets in the UK and the Republic of Ireland, 105 outlets in The Netherlands and Belgium and 11 in Poland. The Group participates in a joint venture in Germany with one store.

The results and activity for the period, future plans, trends and factors affecting the development, position and performance of the business, as required by the Companies Act 1985 and the Companies Act 2006 are described in the Chairman's statement and the Business review on pages 2 to 13.

2 Profits and dividends

The profit on ordinary activities of the Group before taxation amounted to £59.5 million (2007: £67.0 million) and after taxation to £42.8 million (2007: £46.3 million). From this profit the Directors recommend a final dividend of 30.0 pence net of tax per Ordinary share to be paid on 26 September 2008 (2007: 30.0 pence per share) to shareholders registered at the close of business on 12 September 2008. An interim dividend of 22.0 pence was paid on 22 February 2008. If the final dividend is approved, the total Ordinary dividend for the year will amount to 52.0 pence per share (2007: 50.0 pence per share).

3 Directors

The names of the Directors of the Company are set out on page 14, together with short biographical notes. Mr Ian Kenyon, Group Finance Director, left the Group on 29 February 2008.

Lord Harris, Mr Harris and Mr Toogood retire by rotation and, being eligible, Lord Harris and Mr Harris offer themselves for re-election at the forthcoming Annual General Meeting ("AGM"). Mr Toogood will retire from the Board at the AGM. Mr Neil Page will be appointed Group Finance Director on 14 July 2008 and will hold office in accordance with the Articles of Association until the AGM when he will retire and, being eligible, offer himself for election.

Details of Executive Directors' service contracts and share options are set out in the Directors' remuneration report on pages 27 to 32.

The beneficial interests of the Directors who held office at the end of the period in the share capital of the Company are as follows:

	Ordinary shares of one penny each as at 3 May 2008	Ordinary shares of one penny each as at 28 April 2007
Lord Harris	**15,881,071**	15,874,683
M J Harris	**876,094**	873,319
J Kitching	**674,471**	671,161
C G Sollesse	**31,199**	27,823
G Brady	**nil**	nil
S R Metcalf	**2,000**	2,000
Baroness Noakes	**32,225**	32,225
M Toogood	**12,500**	12,500
G Weston	**12,000**	12,000

In addition, Lord Harris has a non-beneficial interest in 149,514 shares (2007: 240,014). 59,000 of these shares are included within Mr Martin Harris' beneficial interests. Also, each Director has an indirect interest in the 21,543 shares held in trust under the Long-Term Incentive Plan ("LTIP"). Save as disclosed in this section, none of the Directors has any non-beneficial interests in the shares of the Company.

Between 3 May 2008 and the date of this report 33 shares have been purchased for each of Lord Harris, Mr Harris, Mr Kitching, and Mr Sollesse under the Company's All Employee Share Ownership Plan ("AESOP"). In addition, 33 shares were purchased for Mrs Sollesse under the AESOP and these form part of Mr Sollesse's beneficial holding. There have been no other changes to the above shareholdings.

Save as disclosed herein, no Director had a material interest in any contract or arrangement with the Company during the year, other than through their respective service contracts.

Details of transactions during the period with companies of which Lord Harris and/or Mr Harris is a Director and/or in which Lord Harris holds a material interest are noted below. All of these transactions are on normal commercial terms.

Directors' report for the period to 3 May 2008 (continued)

	2008	2007	2008	2007	2008	2007
	Lease and concession agreement payments made £'000		Lease and concession agreement payments received £'000		Supplies of goods/ services payments made £'000	
Bridgwater Retail	–	17	–	–	–	–
Edinburgh Retail LLP	508	454	100	450	–	–
Glenrothes Retail LLP	155	117	400	118	–	–
Greenock Retail Ltd	225	160	–	865	–	–
Harris Ventures Ltd	265	257	–	–	8	8
Hull Unit Trust	360	210	–	–	–	–
Islandview Properties Ltd	277	174	–	100	–	–
Neath Retail LLP	153	23	–	300	–	–
Wick Retail Ltd	55	9	–	–	–	–

As at 3 May 2008 the Group owed related parties £1,470 (2007: £2,500).

4 Substantial shareholdings

As at the date of this report, the Company has been notified of the following substantial shareholdings, other than those of the Directors, in the issued share capital of the Company:

	Number of shares held	Total number of shares held	Percentage of shares held
The Olayan Group		10,099,000	15.0%
Harris Associates Inc		6,436,518	9.6%
Crédit Agricole Cheuvreux Int'l Ltd		3,783,446	5.6%
MF Global UK Ltd		3,463,924	5.2%
A R Bull, as a trustee jointly with			
S L Sadler	212,000		
Lord Harris*	48,000		
Lord Harris and P Saunders**	59,000		
C W Harris and P Scott	10,000		
A H Palmer and E A O'Keeffe	1,750,000		
C J Downs, D J Stockwell and Sir Hugh Sykes	987,500	3,066,500	4.6%
Cascade Investment LLC		2,735,354	4.0%
Legal and General Group Plc		2,169,111	3.2%
A H Palmer and E A O'Keeffe†		873,000	1.3%

* These shares are also included in Lord Harris's non-beneficial holding reported on page 15.

** These shares are also included in Mr Martin Harris's beneficial holdings and Lord Harris's non-beneficial holdings reported on page 15.

† Of these shares, 793,000 are held on behalf of Mr Martin Harris and so are also included in his reported holding on page 15. These shares are in addition to the shares held jointly with Mr Bull. The total number of shares in which Ms Palmer and Mr O'Keeffe have a non-beneficial interest is 2,623,000, representing 3.9% of the issued share capital.

5 Employment policies

It is the Group's policy to involve employees in the business and to ensure that matters of concern to them, including the Group's aims and objectives and financial and economic factors affecting the Group, are communicated in an open and regular way. This is achieved through the Group's annual conference, management briefings and other less formal communications. The Directors believe it is in the interests of both the Group and the employees for staff to have an opportunity to invest in Company shares and an All Employee Share Ownership Plan ("AESOP") commenced in September 2001 and a Savings Related Share Option Scheme ("the SAYE Scheme"), open to all employees, was launched in January 2005.

Under the Company AESOP employees may make contributions from their gross pay with which shares are purchased on their behalf by the AESOP Trustee. Dividends on AESOP shares are reinvested in the AESOP. At 3 May 2008, 80,964 shares were held in the Plan (2007: 70,987) with a total value of £617,351 (2007: £755,302). Administration costs are borne by the Company and are expensed as professional fees.

The SAYE Scheme was launched in January 2005. In 2008, 392 employees took up the invitation to commence savings to purchase shares at a discounted price (618 pence) and options were granted over 300,648 shares. If all of these share options are exercised the issued share capital will increase by 0.4%. It is intended to continue to issue annual invitations to join the SAYE Scheme following the release of the interim results.

6 Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of an employee becoming disabled, every effort is made to ensure that their employment continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees. The Group's policy is to make its premises as accessible as possible to all staff and customers, including those with disabilities, and it will continue its programme of investing in its premises to remove or minimise any difficulties the disabled might encounter.

7 Donations

No charitable or political donations were made during the year (2007: £nil). The Group's Corporate Responsibility Policy, which includes charities, is available on the corporate website (www.carpetright.plc.uk) and an update is given on pages 24 to 26.

8 The environment

The Group is committed to taking steps to control and minimise any damage its business may cause to the environment through manufacturing processes, transport and logistics, energy usage and packaging. The Group's Environmental Policy is included within the Corporate Responsibility Policy and is available on the corporate website and an update is given on pages 24 to 26.

9 Financial instruments

The Group uses a limited number of financial instruments to manage the financial risks faced by the Group comprising cash, short-term deposits, bank overdrafts and various items such as trade debtors and creditors that arise directly from operations. The main financial risks faced by the Group are those of interest rate, exchange rate and liquidity. The Group manages interest rate risk by placing Interest Rate Swap Agreements against at least 75% of term loan borrowings, the balance being liable to interest at the prevailing floating rate. Foreign exchange risk is minimised by (a) purchasing goods for resale in local currency and (b) utilising the European cash flows to settle loan repayments required in Euros. In respect of liquidity risk, the Group finances its operations from a mix of retained profits and bank borrowings achieved through overdraft facilities. Daily cash balances are forecast and surplus cash is placed on treasury deposit with our bankers at commercial rates, all counterparties having an investment grading. At 3 May 2008 the Group held a net overdraft of £2.2 million (2007: £19.2 million net cash balance).

10 Creditors' payment policy

While the Group does not follow any formal code or standard on payment practice, it agrees terms and conditions for its business transactions when orders for goods and services are placed, and includes the relevant terms in contracts where appropriate. These arrangements are adhered to when making payments subject to the terms and conditions being met by suppliers. The number of trade creditor days outstanding at the period end for the Company was 53 days (2007: 58 days).

11 Market value of properties

In the opinion of the Directors the current open market value of the Group's interests in land and buildings exceeds the book value in Notes 12 and 13 to the Accounts by approximately £25 million.

12 Share capital and share purchases

As at the date of this report, the Company's share capital consists of 67,217,556 issued and fully paid ordinary shares each with a nominal value of one penny per share, listed on the London Stock Exchange. Shares may be held in certificated or uncertificated form. Further details of the Company's authorised and issued share capital, including changes during the year, can be found in Note 26 to the financial statements on page 65.

At the 2007 Annual General Meeting shareholders gave the Company renewed authority to purchase a maximum of 6,796,550 shares of one penny each, i.e. up to 10% of the issued share capital. During the year under review, the Company purchased 750,000 shares for cancellation (2007: nil) under the authority representing 1.1% of the shares in issue at the end of the period and the total cost, including fees and taxes, was £6.5 million. The purchase by the Company of its own shares demonstrates the Company's continued commitment to ensuring that its balance sheet is managed in the long-term interests of the shareholders. Following the repurchases to the date of this report, the outstanding authority to purchase shares would enable the purchase of a further 6,046,550 Ordinary shares. A resolution seeking renewal of the authority will be put to the forthcoming Annual General Meeting.

The rights and obligations attaching to the Company's Ordinary shares are contained in the Company's Articles of Association, a copy of which can be obtained on request to the Company Secretary. Company law has undergone substantial change since January 2007 when the phased implementation of the Companies Act 2006 (the 2006 Act) commenced. The Articles of Association of the Company in their current form no longer fully reflect legislation and best practice and it is therefore proposed that the Company should adopt new Articles of Association at the AGM. Details of the key differences from the current Articles of Association together with details of where a copy of the proposed new Articles of Association can be inspected are contained in the separate Notice of Meeting.

Each Ordinary share carries the right to one vote on a poll at a general meeting of the Company. There are no restrictions on transfer or limitations on the holding of the Company's Ordinary shares and no requirements for prior approval of any transfers. Under the Company's Articles of Association, the Directors have power to suspend voting rights and the right to receive dividends in respect of shares in circumstances where the holder of those shares fails to comply with a notice issued under section 793 of the 2006 Act.

Shares acquired through Carpetright's employee share schemes rank equally with all other Ordinary shares in issue and have no special rights. The trustees of the Company's Employee Benefit Trust (EBT) have waived their rights to dividends on shares held by the EBT and do not exercise their right to vote in respect of such shares. Shares held in trust on behalf of participants in the All Employee Share Ownership Plan are voted by the Trustee as directed by the participants. Details of share-based payments, including information regarding the shares held by the EBTs can be found in Note 5 to the financial statements on page 46.

The Company is not aware of any agreements between shareholders that might result in the restriction of transfer or voting rights in relation to the shares held by such shareholders.

All of the Company's employee share schemes contain provisions relating to a change of control of the Company following a takeover bid. Under these provisions, a change of control of the Company would normally be a vesting event, facilitating the exercise or transfer of awards, subject to any relevant performance conditions being satisfied. The Company is not a party to any other significant agreements that take effect, alter or terminate upon a change of control following a takeover bid other than its bank facility agreement, which provides that on a change of control, the Company is unable to draw down any further amounts under the facility and all sums must be repaid. Further, it is not party to any agreement with the Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs as a result of a takeover bid.

13 Annual General Meeting

In addition to resolutions to adopt the accounts, declare a final dividend, approve the Directors' remuneration report, re-elect Directors and reappoint the auditors, four further resolutions will be proposed at the Annual General Meeting.

The first is to give the Directors general power to allot shares up to an aggregate nominal amount of £224,058 (equal to approximately 33.3% of the issued Ordinary share capital). The Directors have no present intention of exercising this authority, which will lapse at the 2009 Annual General Meeting, but retain the authority to do so.

The second is to disapply the statutory rights of pre-emption contained in section 89 of the Companies Act 1985 in relation to rights issues and issues for cash not exceeding 5% of the issued Ordinary share capital. The Directors consider it desirable to maintain the flexibility afforded by this power which will terminate at the 2009 Annual General Meeting.

The third resolution will renew an existing authority which gives the Company power to purchase its own shares within limits as to number of shares and price. The Directors will only exercise the authority if they are satisfied that any purchase will increase the earnings per share of the Ordinary share capital in issue and will be in the interests of the shareholders. Options over 460,699 Ordinary shares in the capital of the Company were outstanding as at 23 June 2008 (being the latest practicable date prior to publication of this report) representing 0.7% of the issued share capital of the Company as at that date. If the Directors were to exercise in full the power for which they are seeking authority under the proposed resolution, the options outstanding as at 23 June 2008 would represent 0.8% of the Ordinary share capital in issue following such exercise.

The fourth resolution is to adopt new Articles of Association to generally update the Company's constitution and to bring it into line with the provisions of the Companies Act 2006.

14 Post balance sheet event

The purchase of the trade and assets of Ben de Graaff Tapijt, a retailer of floor coverings and curtains/blinds based in the south of The Netherlands, completed on 30 June 2008 for an initial consideration of €4.0 million, with a further €3.8 million, subject to working capital values, payable on 1 October 2008.

15 Audit information

Each of the Directors of the Company in office at the date of approval of this Report has confirmed that (a) so far as each Director is aware, there is no relevant audit information of which the auditors are unaware and (b) that each Director has taken all steps they should have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

16 Auditors

PricewaterhouseCoopers LLP has expressed its willingness to continue in office as auditors of the Company and, in accordance with section 491 of the Companies Act 2006, a resolution proposing its re-appointment will be put to the members at the Annual General Meeting.

By order of the Board

Mrs P A T Dregent
Secretary
30 June 2008

Registered Office:
Harris House, Purfleet Bypass
Purfleet, Essex RM19 1TT

Reg. No. 2294875

Corporate governance

This statement, together with the Directors' remuneration report on pages 27 to 32, explains how the Company has applied the principles set out in section 1 of the Combined Code (2006).

The Company recognises the importance of, and is committed to, high standards of corporate governance. The principles of good governance adopted by the Company have been applied as follows:

The Board

The overall strategy and objectives for the Group are agreed by the Board as a whole, with the day-to-day management being delegated to the Chief Executive and the Executive Directors, with each Executive Director being responsible for the performance of his area of the business. The Board is also responsible for satisfying itself as to the integrity of financial information and the effectiveness of the Group's system of internal control and risk management processes.

All Directors are equally accountable under the law for the proper stewardship of the Group's affairs. However, the Non-Executive Directors have a particular role to:

- challenge constructively the strategy proposed by the Chief Executive and the Executive Directors;
- scrutinise and challenge performance;
- assess risk and the integrity of financial information and controls; and
- ensure appropriate remuneration and succession planning arrangements are in place in relation to Executive Directors and other senior executive roles.

A Board performance evaluation exercise, which included the work of the Board Committees, was last undertaken in spring 2008, led by the Senior Independent Director and the Chairman. Improvements to the timing and content of meetings were identified and these are being implemented.

Directors

The Board currently consists of four Executive and five Non-Executive Directors, all of whom are considered by the Board to be independent under the terms of the Combined Code. A fifth Executive Director, Mr Neil Page, will assume office on 14 July 2008. Baroness Wilcox retired from the Board in June 2007. Mr Martin Toogood will be retiring from the Board at the AGM.

Under the Company's Articles of Association one-third of the Board is subject to retirement and re-election each year. In accordance with the requirements of the Code, the Directors have agreed that every Director will submit himself or herself for re-election at least every three years regardless of whether he or she would be required to retire by rotation under the Company's current Articles of Association.

The full Board met five times during the year under review and six meetings are scheduled for the current year. The Non-Executive Directors generally meet privately with the Chairman and Chief Executive at least twice each year. The Non-Executive Directors meet, with no Executive Directors present, at least once each year inter alia to review the performance of the Chairman and Chief Executive.

The Board evaluation process includes periodic review and discussion of the position of the Chairman who also combines the role with that of Chief Executive. The Board does not at present consider it necessary to separate the two roles. The Chairman is one of the leading figures in the industry both in the UK and Europe and the Board believe that it is in shareholders' interests that he should be seen to take the leading role in the Company's affairs. He also has extensive listed company experience at Board level. The Chairman is not a member of any Board Committee although he attends Committee meetings if invited. All major decisions are taken after full consultation with the Non-Executive Directors, and the Senior Independent Director in particular, and in accordance with the procedures specified under the Schedule of Matters Reserved for the Board. Baroness Noakes has been the Senior Independent Director since June 2004.

Each Board member receives monthly trading results, commentary and an update on key business issues and prior to each Board meeting receives a full set of Board papers for each agenda item to be discussed at the meeting. A formal Schedule of Matters Reserved for the Board covers key areas of the Company's affairs, including property and business acquisitions and disposals above a set limit.

All Directors have access to the advice and services of the Company Secretary and the Board has established a procedure whereby Directors, wishing to do so in the furtherance of their duties, may take independent professional advice at the Company's expense. In addition, such advice may include training in order to enable them to discharge their roles and responsibilities as a Director. All new Directors receive an induction tailored to their particular requirements.

Corporate governance (continued)

Attendance at Board and Committee Meetings

For the period to 3 May 2008 the Directors' attendance at meetings was as follows:

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings:	5	3	2	3
Executive Directors				
Lord Harris	5			
M J Harris	5			
I P Kenyon*	4			
J Kitching	5		2	
C G Sollesse	5			
Non-Executive Directors				
G Brady	5	3		
S R Metcalf	5	3		3
Baroness Noakes	5	3	2	
M Toogood	5		2	3
G Weston	5		1	3
Baroness Wilcox**	0			
Scheduled meetings for 2008/9	6	4	2	3

* Mr Kenyon left the Group on 29 February 2008.
** Baroness Wilcox retired from the Board in June 2007.

Board Committees

The Board has delegated specific responsibilities to committees, as described below. Executive Directors attend both the Audit Committee and Remuneration Committee on the request of the respective Chairman of each Committee. The Company Secretary acts as Secretary to each Committee. The Terms of Reference of each Committee are available on the Company's corporate website (www.carpetright.plc.uk).

For the year 2007/8 the Committee memberships were as follows:

	Audit	Nomination	Remuneration
Membership:	Solely independent non-executives	Majority independent non-executives	Solely independent non-executives
G Brady	Member		
S R Metcalf	Member		Chairman
Baroness Noakes	Chairman	Chairman	
M Toogood		Member	Member
G Weston		Member	Member
		plus J Kitching	

The **Audit Committee** consists of three independent Non-Executive Directors. It is chaired by Baroness Noakes, who is a chartered accountant and is considered to be suitably qualified and has recent relevant experience to be the Audit Committee Chairman. Baroness Noakes, Mr Brady and Mr Metcalf served for the whole year.

At the invitation of the Committee, the Chairman and Chief Executive regularly attended meetings, as did the Group Finance Director, the Head of Internal Audit and the external auditors. There were also regular private meetings with the external and internal auditors at which management was not present.

In 2007/8 there were three Committee meetings, with four planned for 2008/9. An annual calendar was used to ensure that the Committee's terms of reference were fully addressed over the year.

The Audit Committee discharged its responsibilities by:

- Reviewing the Group's draft preliminary annual results announcement and financial statements and the interim statement prior to Board approval and reviewing the external auditors detailed reports thereon;
- Reviewing the consistency of and any changes to the Group's accounting policies, the application of appropriate accounting standards and methods used to account for significant or unusual transactions;
- Reviewing the effectiveness of the external audit and recommending to the Board, after due consideration, the re-appointment of the external auditors at the AGM;
- Reviewing the application of the policy on non-audit work performed by the Group's external auditors together with the non-audit fees payable to the external auditors;
- Reviewing the external auditors' plan for the audit of the Group's accounts, and approving the terms of engagement for the audit;
- Reviewing the process for ensuring that senior management confirm that they have supplied the auditors with relevant audit information;
- Reviewing the internal auditors' reports on the Group's systems of internal control and reporting the results of this review to the Board; and
- Reviewing the Executive Directors' reports on key risks to the business and the work of the risk management committee and working groups.

Carpetright's policy is for the auditors to carry out mainly audit and assurance related activities. The policy places a premium upon the auditors' independence and the auditors are allowed to undertake non-audit work only if the Audit Committee has satisfied itself that the auditors' independence would not be compromised.

As part of the Board effectiveness evaluation, the Committee undertook a form of self assessment: no significant training needs or operational omissions were identified.

The **Nomination Committee** comprises Baroness Noakes, Mr Toogood and Mr Weston, all independent Non-Executive Directors, and Mr Kitching and is chaired by Baroness Noakes.

The Committee reviews annually the composition of the Board to ensure that at least half the Board is comprised of independent Non-Executive Directors and recommends changes as necessary. External search consultants assist in the search process for all new Board appointees. The Nomination Committee considers the skills and competencies of the existing Directors when drawing up a specification for new appointments.

The Committee also considers whether Directors due to retire by rotation should be recommended for re-appointment, and whether the appointment of Non-Executive Directors reaching the end of their three-year term should be renewed. Committee members do not vote on their own reappointment. The Committee met twice during the year.

The Remuneration Committee's report is set out on pages 27 to 32.

Corporate governance (continued)

Internal control

The Board has noted the updates to the Turnbull Guidance and keeps under review how the Turnbull Guidance should be applied.

The Board acknowledges its responsibility for the Company's and the Group's systems of internal control and for monitoring their effectiveness. In order to fulfill this responsibility and safeguard shareholder investment and the Company's and the Group's assets, the Directors have established an organisational framework with clear operational procedures, lines of responsibility and delegated authority which has operated throughout the year under review and up to the date of approval of the annual report and financial statements.

The key elements of the Group's systems of internal control are as follows:

Identification of business risks

The Board is responsible for identifying the major business risks faced by the Group, and determining a suitable response. The Executive Directors' Group ("the EDs' Group"), set up in 2005, has the objective of identifying and assessing risks to the Company's medium-term strategy. The EDs' Group directs the UK and European Risk Management Committees, the former having been in existence for several years, to provide a risk response to each of the identified risks. The EDs' Group has provided regular reports to the Audit Committee and has considered the risk map and strategies adopted to mitigate the risks therein.

The UK Risk Management Committee comprises a small number of the senior management team as regular members, who are able to call on the expertise of other managers as required. The Committee, which meets at least quarterly, regularly reviews the risk management and control process and considers the response to the significant risks which have been identified by management and others and monitors the maintenance of a control environment directed towards the proper management of risk.

Additionally, the Corporate Responsibility, Business Continuity, Stock Management and Health and Safety Working Groups, each of which meet at least four times a year, report to the EDs' Group. Temporary Working Groups are formed as necessary to address specific risks, for example the commencement of operations from the new cutting and distribution centre in Purfleet.

The European Risk Management Committee consists of senior managers within the European operations. The Committee meets quarterly to consider all risk matters across the European operations.

Health and Safety

Enforcing the Health and Safety policy is a high priority for management and fully descriptive manuals are available to all staff, supported by a training programme for stores, distribution centres and the central support office. Risk assessments are undertaken for all procedures and safe systems of work devised for all procedures involving physical risk. Failure to adhere to safe systems of work or following unsafe working practices will be subject to review and, if necessary, disciplinary proceedings. Health and safety issues are included as part of the internal audit review of all premises.

Procedures documentation

Business Procedures and Systems Procedures Manuals are available to provide staff with a reliable source of reference on all Company procedures. Procedures are reviewed regularly and updates are issued as necessary via a weekly bulletin to all stores and central departments.

Planning

The Group's planning system underpins the annual budget process. The budget is reviewed and approved formally by the Board. Actual performance is reported on a monthly basis and measured against the budget and the prior year and a detailed explanation of significant variances is provided. Key performance indicators are monitored weekly.

Control procedures

The Group has control procedures designed to provide a complete and accurate record of financial transactions, to ensure correct accounting and to minimise the possible exposure to fraudulent transactions. The Board believes that the measures taken, including physical controls, separation of duties and management reviews provide suitable assurance. Any issues raised by the Group's auditors or the internal audit function are fully reviewed and considered. Where necessary, separate working parties are set up to investigate and recommend means of addressing significant areas of concern, in addition to the work undertaken by the Risk Management Committee. The Internal Audit function undertakes its work, both on central functions and in the field, based on a risk analysis model. In particular, regular store audits take place at varying frequencies based upon a risk model so that audit input is commensurate with identified control risks.

An external whistleblowing service provides an independent point of contact for any member of staff to raise concerns they are unable to raise directly with their line manager. Concerns may be reported anonymously and feedback is given wherever possible.

Monitoring and effectiveness
On behalf of the Board the Audit Committee reviews the effectiveness of the Group's system of internal control, by reviewing the internal audit programme and its findings, by reviewing the work of EDs' Group, reviewing the half year and annual financial statements, and the nature and scope of the external audit. Any significant findings or identified risks are closely examined so that appropriate action may be taken, or directed.

The Board has reviewed the effectiveness of its systems of internal control during the year. In particular, a Risk Register is reviewed regularly and updated annually as a means of identifying and evaluating the significant risks which affect the business and the policies and procedures by which these risks are managed. However, such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and provide reasonable but not absolute assurance against material misstatement or loss.

The Board confirms that necessary actions have been or are being taken to remedy any significant failings or weaknesses identified from the review of the effectiveness of internal control.

Relations with shareholders
The Company maintains good communications with shareholders. The Executive Directors meet regularly with representatives of institutional shareholders to discuss the strategies and objectives of the Company. Investors are welcome to meet with the Non-Executive Directors if they wish to do so and have such an opportunity at the Preliminary and Interim Announcements which are attended by the Senior Independent Director and other Non Executives. Other arrangements are made during the year and investors have an open invitation to contact the Directors at any time. The whole Board is briefed on any concerns raised by shareholders.

Interim management statements will be issued as listed on the Calendar on page 76.

It is intended that the Chairmen of the Audit, Nomination and Remuneration Committees will attend the Annual General Meeting. All shareholders will have at least 20 working days' notice of the Annual General Meeting. As required by the Code the Board will, at the 2008 Annual General Meeting, announce the proxy votes in favour of and against each resolution following a vote by a show of hands, and the votes cast will be posted on the corporate website.

Accountability and audit
The Statement of Directors' responsibilities in relation to the accounts is set out on page 33. The Statement by the Auditors on their responsibilities in respect of the accounts is contained in their report on page 34. Details of the auditor's remuneration for audit work and non-audit fees for the periods ended 3 May 2008 and 28 April 2007 are disclosed in Note 3 to the financial statements.

Going concern
The Group's financial statements have been prepared on the basis that the Directors have a reasonable expectation that the Group will continue to be a going concern for the foreseeable future. In forming this opinion the Directors have reviewed the Company's budget for the year ending 2 May 2009 and outline projections for the subsequent two years, including capital expenditure and cash flow forecasts.

Corporate Responsibility
The Company is very aware of its responsibilities to the wider community and has published a Corporate Responsibility policy which is available on the corporate website. The policy includes relations with staff, shareholders and the community, trade bodies and suppliers and will be updated regularly.

Compliance with the Combined Code
The Company complied with the Code provisions (set out in section 1 of the Combined Code) throughout the period ended 3 May 2008 except provision A.2.1 as the roles of Chairman and Chief Executive are combined, as discussed above.
In addition, for the first two months of the year the independent Non-Executive Directors did not comprise 50% of the Board; this was rectified when Baroness Wilcox, who was not independent, retired from the Board in June 2007.

Our auditors, PricewaterhouseCoopers LLP, have reviewed the Directors' statement on the Company's compliance to the extent required by the listing rules and their report appears on page 34.

Corporate responsibility

Our Corporate Responsibility policy is designed to meet the expectations of our stakeholders and ensure the sustainable development of our business. Protecting the environment and running our business ethically makes good commercial sense and will help us to enhance shareholder returns and improve the environment for everyone.

We have developed policies to cover the following :

Providing great service

Our aim is to provide outstanding customer service by selling a comprehensive range of floor covering products at the keenest prices, supported by excellent store staff and approved independent fitters.

Our aims

- Our staff are trained to serve our customers and handle any complaints;
- Stores will have sufficient estimators to ensure that customers can be visited at home at times to suit them;
- Stores will be accessible to disabled customers;
- All fitters should be independently assessed to ensure they give the best service to our customers; and
- Customer feedback will be obtained, analysed and used to identify areas for improvement.

Our performance

- Fitting – we have been working with the Flooring Industry Training Association to assess and, if necessary, train the independent fitters recommended by us. Since the scheme started more than 2,100 fitters have been assessed, including fitters recommended by Storeys;
- Store ordering – our new EPOS store system is now live in over 400 stores;
- Complaints – a new monitoring system has been developed in our central customer services team enabling a more efficient flow of data and facilitating the faster resolution of complaints.

Average number of complaints per £m

Year	Complaints per £m
2002	17.8
2003	14.3
2004	12.0
2005	13.0
2006	9.4
2007	5.8
2008	**7.5**

Our targets

- To continue to assess and train carpet fitters and implement an accreditation system for solid wood and laminate fitters;
- To introduce a customer survey asking for views on the level of satisfaction and service received;
- To complete the roll-out of the EPOS system.

Developing committed people

We employ over 4,000 people in stores, depots and offices throughout the UK, Republic of Ireland and the Rest of Europe.

Our aims

- To ensure everyone has the right skills and knowledge to do their jobs;
- To offer our people a good range of incentives and benefits;
- To value and promote the diversity of our workforce; and
- To encourage our staff to help in the community or support charities, and recognise those who make an outstanding voluntary contribution.

Our performance

- Communication – we communicate in an open and regular way through local management briefings, newsletters, in-house radio broadcasts and the Company's annual conference;
- Benefits – well-rewarded staff are essential to providing excellent customer service and a key objective is to select and retain the best. Staff benefits have been rebranded, to ease recognition and ensure consistency. A Chairman's Award scheme rewards exceptional performance;
- Policies – we operate an open recruitment policy and do not discriminate against any employee or potential employee. We operate a Code of Conduct to which all staff are expected to adhere. We have a widely disseminated formal grievance procedure and a well documented and fully publicised whistleblowing procedure so that staff can raise issues of concern in the strictest confidence;
- Community – we are fully appreciative of the importance of voluntary service to the community and, wherever possible, we encourage staff to take on community commitments, such as service as local councillor, magistrate, school governor, charity trustee, or member of the Territorial Army.

Our targets
- To train all our store staff on the new computer system via direct training courses and computer-based training, initially in the UK only;
- To promote all our benefits particularly via a new intranet site to all staff;
- To launch a new electronic communication tool into stores to improve the quality, quantity and timeliness of communication;
- To recruit more estimators so we can meet customer requirements; and
- To monitor the composition of our workforce to ensure we reflect the communities we operate within.

Sourcing great products
We are committed to buying great products from suppliers who operate in an entirely responsible manner.

Our aims
- Suppliers are subject to vetting for satisfactory ethics and procedures including staff terms and conditions;
- Our supply chain partners will be required to sign up to a Carpetright "Code of Conduct" to ensure we are always acting in a responsible and ethical manner; and
- Where a particular environmental concern is associated with a product we will work with our suppliers to deal with it responsibly.

Our performance
- Suppliers – our suppliers complete a questionnaire to confirm they operate to satisfactory standards. We take particular care to see that any chemicals and materials used by suppliers in the manufacture of products are only those we consider acceptable. Carpet suppliers from Belgium conform to a Europe-wide set of industry standards for chemicals;
- Product – we source most of our products from the UK and Europe, and some from the USA. Sustainability is always key and we are proud to have achieved the following:
  - We have introduced a new Timber Policy and ensure all our wood products have attained 100% Forest Stewardship Council certification;
  - Our underlay range includes a product made from recycled tyres;
  - We offer a vinyl product range that includes a totally recyclable vinyl;
  - We have introduced a new carpet product which is manufactured without generating latex waste product.

Our targets
- To develop a supplier Code of Conduct that supports our Corporate Responsibility policy; and
- To look for products manufactured by more environmentally friendly methods.

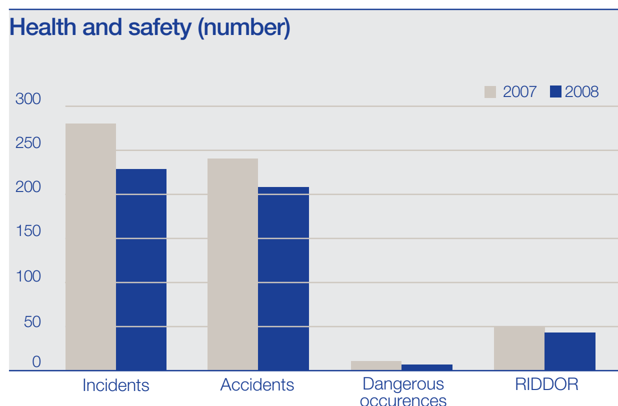
Creating a safe place to work and shop
We are committed to achieve the highest standards of health and safety in all operational areas, not only for our staff but also for all those who may be affected by what we do.

Our aims
- To develop and implement health and safety management systems and relevant procedures;
- Stores will be safe and we will introduce new equipment (e.g. forklifts) so that heavy loads do not need to be handled physically by the staff;
- We will find a new and safer system for cutting carpets and vinyls in our shops;
- Health and safety training will be given to everyone;
- To ensure that risk assessment and effective safe systems of work are vital components of the health and safety management strategy; and
- To secure the support of all employees at all levels to make this policy truly effective.

Our performance
- Training – a modular Health and Safety training programme has been introduced in the UK and Republic of Ireland. A supplementary induction declaration specifically for the young ensures that all employees know their responsibilities at the start of their employment;
- Accident Reporting Procedure – our procedure has been improved by a new accident/incident report form. We have improved accident investigations and reactions. Our external helpdesk produces detailed statistics on a monthly basis, which help to identify trends across the Company and any changes necessary to systems and/or equipment;

Corporate responsibility (continued)

Our accident levels have yet again fallen year on year as illustrated in the table below:



- New equipment – we constantly look at new equipment which might reduce manual handling. The continued rollout of pedestrian forklift trucks has helped to reduce the number of reported accidents over the last five years;
- First aid – the level of trained first aid provision throughout the Company exceeds statutory requirements;
- Smoking in the workplace – all our workplaces are non-smoking areas;
- Communication – an internal health and safety newsletter is produced every month. It provides important additional information on certain health and safety issues as well as reminders of correct procedures and information on relevant future legislation changes.

Our targets
- Introduction of an illustrated Health and Safety manual;
- Introduction of e-learning modules for all staff;
- Rewrite training in line with the new manual and launch in stores; and
- Introduction of a new and safer system for cutting carpets and vinyls in our shops.

Respect for the environment
We are committed to taking steps to control and minimise any damage our operations may cause to the environment through manufacturing processes, transport and logistics, energy usage and packaging. In particular we want to understand and minimise our carbon emissions.

Our aims
- To ensure operational compliance with all relevant environmental legislation;
- To have fuel efficiency measures operating within our distribution network;
- To have energy efficiency measures in our sites to reduce energy consumption and to consider alternative sources of power;
- To minimise waste disposal, recycle whenever practicable, and look for alternative materials; and
- To raise staff awareness of the issues by training and co-operation with our suppliers and partners.

Our performance
- Energy Consumption – we expect to minimise energy consumption and CO_2 emissions from stores and improve energy efficiency by using alternative electricity technology.
- Waste management – we are compliant with the Waste Electrical and Electronic Equipment Regulations, working in partnership with our approved contractors. During the year to April 2008 we have reduced our waste by over 40% whilst the number of stores has increased by nearly 9%. Since September 2006 we have identified stores with high water consumption for investigation by engineers: remedial work has led to a reduction in consumption of up to 85% per store/site.
- Fuel Efficiency – We have reduced the distance our products are carried to reduce pollution and road congestion. Our store delivery schedule is reviewed weekly in order to minimise distance travelled by the fleet, whilst still ensuring excellent customer service and all delivery vehicle drivers have undergone fuel efficiency training.

Our targets
- Following the move to our new facility we will remove the need to truck stock to an external distribution centre thereby saving mileage and fuel;
- Trials to improve upon waste disposal and recovery of reusable and recyclable material used for customer orders will be undertaken by taking waste material from stores back to the centre for recycling. We will start to make our own cardboard inner tubes for carpets in the forthcoming year;
- Upgrading lighting systems within stores will reduce the overall electrical consumption by 15% across the portfolio and reduce CO_2 emissions by over 2,100 tonnes per annum;
- To evaluate energy saving schemes and implement the most promising;
- To establish benchmark figures for utility consumption against which targets can be set for future years; and
- Our company car policy will be reviewed to ensure more environmentally friendly choices of vehicle are available.

Directors' remuneration report

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 ("the Regulations"), the Combined Code (2006) and the relevant requirements of the Listing Rules of the UK Listing Authority.

As required by the Regulations, a resolution for shareholders to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved. The report, which is split into separate sections for audited and unaudited information, has been approved by the Board.

Unaudited information

Remuneration Committee's composition and scope

Throughout the year the Remuneration Committee ("the Committee") comprised Mr Metcalf (Chairman of the Committee), Mr Toogood and Mr Weston all of whom were independent Non-Executive Directors.

The Committee is responsible for determining the pay and benefits and contractual arrangements of each Executive Director, as well as the Company's share-based incentive programmes. The Chairman and Chief Executive and/or the Group Finance Director attend meetings of the Committee when requested. Neither participates in discussions relating to his own remuneration. Meetings are also attended by the Group Human Resources Director and a representative of Hay Group, as required. The Terms of Reference of the Committee are displayed on the corporate website (www.carpetright.plc.uk).

Advisers to the Remuneration Committee

During the year Hay Group was retained by the Committee to advise on matters relating to the remuneration of the Executive Directors generally, reward scheme design and benchmarking remuneration. Hay Group has provided no other services to the Company.

Travers Smith provided legal advice to the Committee. Travers Smith provide the Company with other legal advice, principally on corporate matters.

Remuneration policy

Executive Directors

The Company's policy is to provide remuneration packages for the Executive Directors which reflect their responsibilities relative to the size and nature of the business.

Details of individual Directors' remuneration, LTIP awards and sharesave options are set out on pages 28 to 31 of this report.

The main components of the remuneration package for Executive Directors are:

Basic salary

The Company's policy is that basic salaries for Executive Directors should take into account the role and responsibilities, performance and experience of the individual. Basic salary is targeted at the retail market median for comparable roles.

Annual performance related bonus

Executive Directors are eligible to receive an annual performance bonus. The amount of bonus is based on the achievement of profit targets specified and agreed at the beginning of the year. For 2008/9 the bonus will be earned on a sliding scale depending on performance, beginning at the achievement of 81% of budget, rising to 60% for achieving budget and, rising again to 120% of salary for achieving a target 12% above budget. As in 2007/8, the maximum is set higher than in previous years to reflect changes effected in respect of the LTIP scheme, as noted below. Bonus payments do not form part of the Directors' pensionable earnings.

Long-Term Incentive Plan

In order to align the interests of Executive Directors and selected senior managers with those of the shareholders the LTIP was introduced in 2004. Further details, including membership of the peer group, are given on pages 30 and 31. Conditional awards of shares were made to Executive Directors and senior managers in September 2004 and September 2005. In September 2006 awards were made to the Executive Directors only. Following a review of the LTIP by the Remuneration Committee the Board decided to base more of the Executive Directors' remuneration on annual performance: accordingly no award was made in 2007 and it is proposed to make no award in 2008.

Pensions

Mr Harris, Mr Kitching and Mr Sollesse are members of the Carpetright plc Pension Plan which is a contributory defined benefit scheme. Details of the Pension Plan as it applies to the Executive Directors are set out below. The Company's contribution on behalf of members is 19.6% of pensionable salaries.

Following a review of the Executive Directors' pension provision prior to the introduction of the pension tax regime simplification in April 2006, Lord Harris decided to leave the Carpetright plc Pension Plan and receives a salary supplement equivalent to the Company's contributions to the Plan on his behalf. Mr Page intends to join the defined contribution Group Personal Pension Plan and the Company will contribute to this.

Other benefits

Executive Directors are entitled to a car allowance, permanent health insurance, annual health screening and membership of a private medical insurance scheme. Additionally, Executive Directors may join the AESOP and the SAYE Scheme on the same terms as any other employee.

Directors' remuneration report (continued)

Non-Executive Directors

The fees of the Non-Executive Directors are determined by the Board. It is the Board's policy to set these fees according to the recommendations made by the Chairman and Chief Executive and the Group Finance Director who make such recommendations with reference to fee levels in similar businesses. The Non-Executive Directors are not eligible for any of the Company's variable pay arrangements.

Senior management

As part of the same exercise as the annual review of the Executive Directors' salary, bonus and benefits, the Committee also reviews the total remuneration of senior management. The Company's policy is to remunerate senior management in line with the retail market median after reviewing performance and benchmarking each role against suitable comparators in the same way as Executive Directors' remuneration is evaluated.

Performance graph

For the information of shareholders a five-year graph is given below showing the total shareholder return ("TSR") of the Company compared to the FTSE mid-250 Index and the Retail Index, which the Directors believe to be the most suitable broad comparators. The graph below shows the TSR of the Company compared to that of these two indices over the period May 2003 – April 2008.

Service contracts

It is the Company's policy to employ Executive Directors under contracts with an indefinite term subject to termination by notice given by either party, normally of 12 months. These employment contracts do not provide for termination payments other than, in the case of early termination by the Company, payment in lieu of notice. An exercise to revise and update the Executive Directors' contracts of employment was undertaken in 2006 and Lord Harris and Mr Sollesse entered into new contracts which contain suitable mitigation terms. Mr Harris and Mr Kitching remain on their original terms.

A summary of the Executive Directors' service contracts is given below.

	Current salary £	Date of service contract	Notice period
Lord Harris	481,832	20 November 2006	12 months
M J Harris	280,000	30 June 2003	12 months
J Kitching	285,000	14 May 1993	12 months
C G Sollesse	280,000	20 November 2006	12 months

Lord Harris also receives a supplement of £18,350 in lieu of pension contributions. Executive Directors retain remuneration from outside non-executive directorships. During the year Lord Harris waived any fees payable by Arsenal Holdings plc and Arsenal Football Club plc.

Non-Executive Directors do not have service contracts with the Company and they are subject to re-election in accordance with the Articles of Association. All of the current Non-Executive Directors are appointed for a specified term of three years at a time.

The details of the Non-Executive Directors' terms are:

	Date of letter of (re) appointment	Unexpired term at date of this report
G Brady	1 March 2007	20 months
S R Metcalf	1 June 2007	23 months
Baroness Noakes	22 January 2007	19 months
M Toogood	14 April 2008	3 months
G Weston	17 January 2008	31 months

Audited information

Directors' emoluments

The table below analyses the emoluments during the period of individual Directors who held office during the period.

	Basic salary £'000	Bonus/ Performance payments £'000	Benefits £'000	Fees £'000	**2008 Total £'000**	2007 Total £'000	**2008 Pensions £'000**	2007 Pensions £'000
Lord Harris (Chairman)	463	141	46	–	**650**	622	**–**	–
M J Harris	246	75	26	–	**347**	342	**22**	21
I P Kenyon (resigned 29 February 2008)	217	–	22	–	**239**	362	**45**	51
J Kitching	271	83	27	–	**381**	376	**22**	21
C G Sollesse	251	76	32	–	**359**	354	**22**	21
G Brady (appointed 1 March 2007)	–	–	–	36	**36**	6	**–**	–
S Metcalf	–	–	–	40	**40**	35	**–**	–
Baroness Noakes	–	–	–	51	**51**	50	**–**	–
M Toogood	–	–	–	36	**36**	35	**–**	–
G Weston	–	–	–	36	**36**	35	**–**	–
Baroness Wilcox (retired June 2007)	–	–	–	5	**5**	35	**–**	–
	1,448	375	153	204	**2,180**	2,252	**111**	114

No emoluments were waived during the period.

The remuneration of the highest paid Director was £650,000 (2007: £622,000).

During the period, Christian Sollesse received a bonus of £200,000 from Harris Ventures Limited, a shareholder whose shares are included within Lord Harris' declared shareholding, in recognition of his importance to the Company and his part in achieving a good return for shareholders, including Harris Ventures. In addition Sir Harry Djanogly, who retired from the Board in 2005, received a consultancy fee of £10,000 for services during the year: no further payments are anticipated. Baroness Wilcox became a consultant on retirement from the Board at a fee of £15,000 per annum.

Sharesave options

Shareholders approved the adoption of an Inland Revenue approved Sharesave Scheme by the Company in 2004 and the first options were granted in spring 2005. Under the SAYE Scheme employees may be granted options over shares in the Company with an exercise price at a discount of up to 20% on the share price and which may be exercised in three or five years from the date of grant using savings of up to £250 per month deducted regularly from their salary.

The Executive Directors participate in this Scheme and details of options granted to them are:

	As at 28 April 2007	Granted during year	Lapsed during year	**As at 3 May 2008**	Exercise price pence	First exercise date	Last exercise date
Lord Harris	1,834	2,718	1,834	**2,718**	618	April 2013	October 2013
M J Harris	1,834	2,718	1,834	**2,718**	618	April 2013	October 2013
I P Kenyon	908	–	908	**–**	–	–	–
J Kitching	1,834	2,718	1,834	**2,718**	618	April 2013	October 2013
C G Sollesse	1,834	2,718	1,834	**2,718**	618	April 2013	October 2013

An option over 2,718 shares was also granted to Mrs Caroline Sollesse, an employee of the Company. Details of options outstanding under the SAYE Scheme are shown at Note 5 in the accounts.

The market price of Carpetright shares was 762.5 pence on 3 May 2008 (28 April 2007: 1064 pence). During the period ended 3 May 2008, the shares of Carpetright plc traded between a low of 673.5 pence and a high of 1340 pence.

All Employee Share Ownership Plan

Carpetright operates an AESOP under which staff may contribute up to £125 per month from pre-tax salary to purchase Carpetright shares. All of the Executive Directors participate in the AESOP, contributing £125 per month.

Directors' remuneration report (continued)

Long-Term Incentive Plan

The LTIP was adopted at the Annual General Meeting in 2004.

Under the LTIP the Executive Directors may receive annual awards in the form of contingent entitlements to Carpetright shares. These awards will be satisfied by the purchase of shares: no new shares will be issued. No award was made in 2007. The following table shows the three awards made under the LTIP and the scheme interests of the relevant Directors in the 2005 and 2006 awards remained the same as at 3 May 2008:

	Shares awarded 15 September 2004	Shares awarded 20 September 2005	Shares awarded 15 September 2006
Closing price on award date	£10.47	£9.26	£11.77
	Number	Number	Number
Lord Harris	16,731	28,574	31,580
M Harris	7,003	13,935	16,788
J Kitching	8,365	16,774	18,515
C Sollesse	7,976	15,483	17,117

During the period to 3 May 2008 the 2004 award vested in part, as follows:

	Originally awarded Number	Lapsed Number	Vested Number	Value at call date £
Lord Harris	16,731	10,573	6,158	52,343
M J Harris	7,003	4,425	2,578	21,913
J Kitching	8,365	5,285	3,080	26,180
C G Sollesse	7,976	5,040	2,936	24,956

The shares to satisfy the awards will be purchased over the three-year vesting period. An Employee Benefit Trust has been established to hold these shares and this is based in Guernsey. A Liaison Committee, chaired by Mr Metcalf and including the Group Finance Director and the Company Secretary, co-ordinates the purchase of shares with the Trust. No shares were purchased in the period to 3 May 2008.

For the 2004 and 2005 awards, relative earnings per share ("EPS") performance and TSR performance over the three-year vesting period against a peer group each determine vesting for one half of each award in accordance with the following table. TSR performance also determines vesting for one half of the 2006 award:

Applies to TSR or EPS peer group ranking	2004 EPS and TSR Vested award (% of salary)	2005 EPS and TSR Vested award (% of salary)	2006 TSR only Vested award (% of salary)
50th percentile and below	0%	0%	0%
51st percentile	6%	9%	12%
75th percentile or greater	20%	30%	40%

Vesting will be determined by straight-line interpolation for performance between the 51st and 75th percentiles. Following the initial test, there will be no opportunity to re-test performance for the determination of awards.

Membership of the peer group for each year's award, compiled in accordance with advice from Hay Group, is detailed below.

	15 September 2004	20 September 2005	15 September 2006
Body Shop	–	•	–
The Boots Company Plc	•	•	–
Countrywide	–	–	•
Courts Plc	•	–	–
Debenhams	–	–	•
DFS Furniture Company Plc	•	–	–
DSG International (Dixons)	•	•	•
GUS plc	•	•	–
GUS plc (Argos)	–	–	•
Halfords	–	•	•
Headlam	–	–	•
HMV Group Plc	•	•	•
Homestyle Group Plc	•	–	•
JJB Sports Plc	•	•	•
KESA	–	–	•
Kingfisher	–	–	•
Land of Leather	–	–	•
Marks & Spencer Plc	•	•	–
Matalan Plc	•	•	–
MFI Furniture Group Plc	•	•	•
Next Plc	•	•	–
SCS Upholstery Plc	•	•	•
Topps Tiles Plc	•	•	•
Travis Perkins	–	•	•
Woolworths Group Plc	•	•	•
WH Smith Plc	•	•	•

For the other half of the 2006 award, vesting is determined by EPS performance over the three year vesting period in accordance with the following table:

Annualised EPS performance	Vested award (% of salary)
Below RPI + 3%	0%
RPI + 3%	12%
RPI + 5%	40%

Vesting will be determined by straight-line interpolation for performance between the RPI + 3% and RPI + 5%. Once these performance targets have been examined there is no further examination.

If a participant ceases to be employed by the Company, the participant generally forfeits all of his awards. In cases of death or retirement due to ill health a pro rata payment may be made at the discretion of the Remuneration Committee.

In the event of a change of control of the Company all awards will vest on a pro rata time and performance basis.

Non-Executive Directors are not eligible to participate in the LTIP. Details of options outstanding under the LTIP are shown in Note 5 to the accounts.

Directors' remuneration report (continued)

Pensions

Only the Executive Directors' basic salaries are pensionable and the main features of the Carpetright plc Pension Plan, which is a defined benefit scheme, in respect of Executive Directors are:

(a) Pensions from age 60 of 2/105 of final pensionable salary for each year of pensionable service, subject to a maximum of 40/60 of final pensionable salary.

(b) A cash benefit on death in service of four times annual rate of pensionable salary at date of death.

(c) Pensions payable in the event of ill-health.

(d) Pensions for dependants on a member's death.

(e) Members' contributions are 5% of salary.

(f) All pensions are subject to contractual increases each April of 3% in respect of pensionable service prior to 6 April 1997 and the lesser of 5% and the increase in RPI in respect of pensionable service subsequent to 5 April 1997. The Executive Directors are subject to a notional earnings cap as published by HMRC for registered pension schemes in the calculation of retirement benefits and death in service pensions. It is confirmed that there are no discretionary practices which are taken into account in calculating transfer values on ceasing service.

Details of pensions earned by the Executive Directors are shown below:

	Pension accrued at 3 May 2008 £'000	Increase/(decrease) in accrued pension during the period to 3 May 2008 (excluding inflation) £'000	Cost to the Plan of the increase in pension in excess of contributions in excess of inflation[1] £'000	Increase/(decrease) in accrued pension during the period to 3 May 2008 (including inflation) £'000	Transfer value as at 28 April 2007 £'000	**Transfer value as at 3 May 2008 £'000**	Increase in transfer value net of Directors' contributions[2] £'000
Lord Harris[3]	**26**	(2)	–	(1)	454	**457**	3
M J Harris	**11**	2	17	3	55	**103**	48
J Kitching	**42**	2	38	4	604	**784**	180
C G Sollesse	**27**	2	27	3	259	**377**	118

(1) The cost to the Plan of the increase represents the incremental value to the Director of his service during the period, calculated on the assumption that service terminated at the year-end. It is based on the increase in accrued pension net of inflation after deducting the Director's contribution.

(2) The total change in value includes the effects of fluctuations in the transfer value due to factors beyond the control of the Company and the Directors, such as stock market movements. It is calculated after deducting Director contributions.

(3) Lord Harris deferred his retirement on 5 April 2006 and subsequently took retirement on 15 September 2007.

(4) The transfer values quoted are full amounts and have not been reduced in line with the transfer value (or GN11) report dated 26 February 2004.

The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the period. The increase or decrease in transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less Directors' contributions. Members of the scheme have the option to pay Additional Voluntary Contributions but none of the Directors has elected to do so.

Approved by the Board on 30 June 2008 and signed on its behalf by

Mrs P A T Dregent
Secretary
30 June 2008

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and Group for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 1985 and the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's websites (www.carpetright.com and www.carpetright.plc.uk) and legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Mrs P A T Dregent
Secretary
30 June 2008

Independent auditors' report to the members of Carpetright plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Carpetright plc for the 53 week period ended 3 May 2008 which comprise the Group Income Statement, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, the Group and Company Statements of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Business Review, the Corporate Governance Statement, The Statement of Directors' responsibilities and the Corporate Responsibility Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 3 May 2008 and of its profit and cash flows for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 3 May 2008 and cash flows for the year then ended;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
and Registered Auditors
London
30 June 2008

Group income statement for the 53 weeks ended 3 May 2008

	Note	53 weeks to 3 May 2008 £m	52 weeks to 28 April 2007 £m
Revenue	2	**521.5**	475.9
Cost of sales		**(198.4)**	(185.1)
Gross profit	2	**323.1**	290.8
Other operating income		**10.1**	12.3
Administrative expenses		**(272.4)**	(234.3)
Operating profit	2,3	**60.8**	68.8
Operating profit before profit on property disposals and non-recurring items	2	**63.4**	59.5
(Losses)/profits on property disposals and non-recurring items	6	**(2.6)**	9.3
Finance costs payable	7	**(2.8)**	(2.6)
Finance income receivable	7	**1.5**	0.8
Profit before tax		**59.5**	67.0
Tax	8	**(16.7)**	(20.7)
Profit for the financial period attributable to equity holders of the Company		**42.8**	46.3

	Note	2008 Pence	2007 Pence
Basic earnings per share	10	**63.2**	68.2
Diluted earnings per share	10	**63.2**	68.2

Dividends paid to equity shareholders in the year and shown in the cash flow statement totalled £35.2 million (2007: £33.9 million).

All material items in the income statement arise from continuing operations.

Statements of recognised income and expense for the 53 weeks ended 3 May 2008

	Note	Group 53 weeks to 3 May 2008 £m	Group 52 weeks to 28 April 2007 £m	Company 53 weeks to 3 May 2008 £m	Company 52 weeks to 28 April 2007 £m
Profit for the financial period		**42.8**	46.3	**37.8**	43.1
Actuarial gains/(losses) on defined benefit pension schemes	24(i)(a)(5)	**0.5**	(0.3)	**0.5**	(0.3)
Fair value losses in respect of cash flow hedges		**(0.2)**	–	**(0.2)**	–
Exchange gains/(losses) in respect of hedged equity investments		**4.4**	(0.3)	**2.8**	(0.3)
Tax on items taken directly to or transferred from equity	8(iii)	**(0.1)**	0.1	**(0.1)**	0.1
Net gains/(losses) recognised directly in equity		**4.6**	(0.5)	**3.0**	(0.5)
Total recognised income for the financial period attributable to equity holders of the Company		**47.4**	45.8	**40.8**	42.6

The notes on pages 38 to 74 form an integral part of the financial statements.

Balance sheets
at 3 May 2008

	Note	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Assets					
Non-current assets					
Intangible assets	11	**62.2**	38.9	**17.8**	18.5
Property, plant and equipment	12	**166.0**	123.8	**111.6**	92.1
Investment property	13	**21.0**	19.5	**7.6**	7.6
Investment in subsidiary undertakings	14	**–**	–	**40.1**	10.8
Investment in joint ventures	15	**0.2**	–	**0.2**	–
Deferred tax assets	23	**3.2**	1.0	**–**	–
Derivative financial instruments	25(iii)	**–**	0.1	**–**	0.1
Trade and other receivables	17	**1.3**	1.6	**50.0**	39.0
Total non-current assets		**253.9**	184.9	**227.3**	168.1
Current assets					
Inventories	16	**40.1**	35.9	**30.4**	28.4
Trade and other receivables	17	**32.6**	26.7	**24.3**	21.9
Cash and cash equivalents	18	**8.9**	20.7	**3.2**	14.7
Total current assets		**81.6**	83.3	**57.9**	65.0
Total assets		**335.5**	268.2	**285.2**	233.1
Liabilities					
Current liabilities					
Trade and other payables	19	**(123.4)**	(120.1)	**(102.4)**	(103.4)
Obligations under finance leases	20	**(0.8)**	(0.8)	**(0.8)**	(0.8)
Borrowings and overdrafts	21	**(22.4)**	(12.2)	**(11.5)**	(6.9)
Current tax liabilities		**(11.5)**	(9.7)	**(8.5)**	(8.6)
Total current liabilities		**(158.1)**	(142.8)	**(123.2)**	(119.7)
Non-current liabilities					
Trade and other payables	19	**(28.3)**	(17.6)	**(28.3)**	(17.6)
Obligations under finance leases	20	**(3.9)**	(3.7)	**(2.9)**	(3.7)
Borrowings	21	**(39.3)**	(11.0)	**(35.1)**	–
Provisions for liabilities and charges	22	**(1.4)**	–	**(1.4)**	–
Deferred tax liabilities	23	**(28.9)**	(23.3)	**(20.6)**	(17.6)
Retirement benefit obligations	24(i)(a)(2)	**(1.3)**	(1.8)	**(1.3)**	(1.8)
Total non-current liabilities		**(103.1)**	(57.4)	**(89.6)**	(40.7)
Total liabilities		**(261.2)**	(200.2)	**(212.8)**	(160.4)
Net assets		**74.3**	68.0	**72.4**	72.7
Equity					
Share capital	26	**0.7**	0.7	**0.7**	0.7
Share premium	26	**15.4**	14.8	**15.4**	14.8
Treasury shares	26	**(0.2)**	(0.5)	**(0.2)**	(0.5)
Other reserves	27	**58.4**	53.0	**56.5**	57.7
Total equity attributable to equity holders of the Company	28	**74.3**	68.0	**72.4**	72.7

These financial statements from pages 35 to 74 were approved by the Board of Directors on 30 June 2008 and were signed on its behalf by:

Lord Harris of Peckham
Martin Harris
Directors

Cash flow statements for the 53 weeks ended 3 May 2008

	Note	Group 53 weeks to 3 May 2008 £m	Group 52 weeks to 28 April 2007 £m	Company 53 weeks to 3 May 2008 £m	Company 52 weeks to 28 April 2007 £m
Operating activities					
Profit before tax		**59.5**	67.0	**55.1**	63.0
Adjusted for:					
Depreciation and amortisation	2,3	**17.0**	13.1	**13.6**	10.7
Non-recurring items		**3.0**	–	**3.0**	–
Share-based payments	4,5	**–**	0.5	**–**	0.5
Profits on property disposals		**(7.0)**	(9.3)	**(7.0)**	(8.3)
Net finance costs	7	**1.3**	1.8	**0.4**	1.1
Operating cash flows before movements in working capital		**73.8**	73.1	**65.1**	67.0
Decrease/(increase) in inventories		**0.8**	(3.3)	**0.9**	(2.4)
(Increase)/decrease in trade and other receivables		**(1.0)**	(3.0)	**1.2**	(4.7)
(Decrease)/increase in trade and other payables		**(0.9)**	15.0	**(3.3)**	13.4
Cash generated from operations		**72.7**	81.8	**63.9**	73.3
Interest paid		**(2.9)**	(1.9)	**(1.9)**	(1.3)
Corporation taxes paid		**(15.1)**	(15.9)	**(14.8)**	(15.9)
Net cash from operating activities		**54.7**	64.0	**47.2**	56.1
Investing activities					
Proceeds on disposal of property, plant and equipment and investment property		**20.0**	24.8	**20.0**	21.8
Purchases of intangible assets		**(2.0)**	(5.8)	**(1.5)**	(5.7)
Purchases of property, plant and equipment and investment property		**(44.5)**	(27.4)	**(37.8)**	(24.4)
Acquisition of shares in subsidiary net of cash acquired	32	**(32.2)**	–	**(32.2)**	–
Acquisition of shares in joint ventures		**(0.2)**	–	**(0.2)**	–
Investment in existing subsidiaries	14	**–**	–	**(2.1)**	(0.3)
Interest received		**0.7**	0.3	**0.6**	0.2
Net cash used in investing activities		**(58.2)**	(8.1)	**(53.2)**	(8.4)
Financing activities					
Purchase and cancellation of own shares		**(6.5)**	–	**(6.5)**	–
Purchase of treasury shares by employee share trust		**–**	(0.4)	**–**	(0.4)
Repayment of borrowings		**(13.4)**	(8.8)	**(9.2)**	(5.2)
New loans advanced		**38.5**	–	**38.5**	–
Repayment of obligation under finance leases		**(0.8)**	(0.7)	**(0.8)**	(0.8)
Dividends paid to Company shareholders	9	**(35.2)**	(33.9)	**(35.2)**	(33.9)
Net cash used in financing activities		**(17.4)**	(43.8)	**(13.2)**	(40.3)
Net (decrease)/increase in cash and cash equivalents in the period		**(20.9)**	12.1	**(19.2)**	7.4
Cash and cash equivalents at the beginning of the period		**19.2**	6.8	**14.7**	7.4
Exchange differences		**(0.5)**	0.3	**(0.8)**	(0.1)
Cash and cash equivalents at the end of the period	18,33	**(2.2)**	19.2	**(5.3)**	14.7

For the purposes of the cash flow statement, cash and cash equivalents are reported net of overdrafts repayable on demand. Overdrafts are excluded from the definition of cash and cash equivalents disclosed in the balance sheet.

Notes to the accounts

1 Principal accounting policies

Basis of preparation

The financial statements of the Group are made up to the Saturday nearest to 30 April. The financial year for 2008 represents the 53 weeks ended 3 May 2008. The comparative financial year for 2007 was 52 weeks ended 28 April 2007.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union, together with those parts of the Companies Acts 1985 and 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments, pension assets and liabilities and share-based payments which are measured at fair value. The principal accounting policies set out below have been consistently applied to all periods presented unless otherwise stated.

Where applicable comparative amounts have been restated to conform with current presentation.

Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiary undertakings. The acquisition of subsidiaries is accounted for using the purchase method. The results of subsidiaries acquired or disposed of in the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal respectively.

Change of accounting policy

In view of the significant capital project relating to the new cutting and distribution centre and in anticipation of the changes being made to International Accounting Standard 23 the Group has changed its accounting policy and now capitalises interest on qualifying tangible fixed assets. Interest of £0.9 million has been capitalised during the period of which £0.1 million related to the prior year. As the adjustment for the prior year is immaterial the comparatives have not been restated.

Exchange differences

The consolidated financial statements are presented in Pounds Sterling, which is the Company's functional and presentational currency. Transactions in foreign currencies, which are those other than the functional currency of an entity, are recorded at the opening rate for the month in which the transaction occurs which is used as a reasonable approximation to the rate at the transaction date. Monetary assets and liabilities denominated in foreign currency are translated at the rates ruling at the balance sheet date. Resulting exchange gains or losses are recognised in the income statement for the period except where they are part of a net foreign investment hedge when they are recognised in equity.

On consolidation the assets and liabilities of the Group's foreign operations are translated at the rate of exchange ruling at the balance sheet date. Income and expenses of foreign operations are translated at the average rate during the period. Differences on translation are recognised as a separate component of equity. On disposal of a foreign operation the cumulative exchange differences for that operation are recognised in the income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of that operation and are translated at the rate ruling at the balance sheet date.

Segment reporting

A geographical segment has operations within a particular economic environment that are subject to risks and returns which are different from those of segments operating in other economic environments. The Group recognises only geographical segments as the business operation is the same throughout the Group.

Revenue

Revenue is measured at the fair value of the consideration received or receivable for the provision of goods and services to customers outside the Group net of returns, sales allowances and value added and other sales based taxes. Revenue from goods and services is recognised at the point the Group fulfils its commercial obligations to the customer, the revenue and costs in respect of the transaction can be measured reliably and collectability is reasonably assured. Revenue arising from the provision of services is not material.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. The fair value of the employee services received in exchange for the grant of options is recognised as an expense and is calculated using Black-Scholes and Monte-Carlo models. The value of the charge is adjusted to reflect expected and actual levels of options vesting. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options which are expected to become exercisable.

At each balance sheet date the Group revises its estimates of the number of options which are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement and a corresponding adjustment to equity over the vesting period.

Impairment

The carrying values of assets are reviewed for indications of impairment at each balance sheet date. If there is an indication of impairment the recoverable amount of either the asset or the cash-generating unit to which it belongs is estimated. Cash-generating units are used where an individual asset does not generate cash flows which are independent of other assets. The recoverable amount of a non-financial asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset or cash-generating unit.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset or cash-generating unit exceeds its recoverable amount.

1 Principal accounting policies (continued)

Other operating income
Other operating income comprises profits or losses on the disposal of property, rental income earned on investment property and income from other property transactions, other than amounts which are, or should be, accounted for as rent.

Profits or losses on the disposal of property, plant and equipment represent the difference between the net proceeds and the net carrying value at the date of disposal. Disposals are accounted for when there has been an unconditional exchange of contracts except where payment or completion is expected to occur significantly after exchange when the disposal is accounted for on completion.

Non-recurring items
Transactions which are material by virtue of their size or incidence such as major reorganisation costs are disclosed as non-recurring items.

Tax
Current tax liabilities are measured at the amount expected to be paid, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred tax expected to be payable or recoverable on differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax is calculated at the rates of tax that are expected to apply when the asset or liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date, and is not discounted.

Tax is charged or credited directly to equity if it relates to items that are credited or charged to equity, otherwise it is recognised in the income statement.

Dividends
Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders or, in the case of interim dividends, paid.

Goodwill
Goodwill acquired through business combinations is allocated to groups of cash-generating units at the level management monitor goodwill. Where businesses are retained in existing form this is at business unit level. Where the business is integrated into an existing business this is at store level.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired entity. Goodwill is not amortised, but is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets
Purchased brand names and other intangible assets are capitalised at cost. Acquired software licences and software development costs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation of intangible assets is calculated to write off the cost of the asset, on a straight-line basis, over its expected useful life. The expected useful lives generally applicable are:

Brands	20 years
Computer software	7 years

Property, plant and equipment
Property, plant and equipment is shown at cost less accumulated depreciation and any provisions for impairment in value.

Depreciation is provided to write down the cost of property, plant and equipment, on a straight-line basis, to their estimated residual values over their estimated useful lives. Freehold land is not depreciated.

The estimated useful lives by asset category that are generally applicable are:

Freehold and long leasehold buildings	50 years
Short leasehold buildings	The shorter of the period of the lease and the estimated useful life
Fixtures and fittings	7 to 10 years
Computers	5 to 7 years
Motor vehicles	4 years
Other plant and machinery	7 to 10 years

Borrowing costs
Gross interest costs incurred on the financing of major projects are capitalised until the time that they are available for use. Unless a specific borrowing is taken out to finance the asset interest is capitalised using the weighted average interest rate of all non-specific borrowings. Where a specific borrowing is taken out to finance the asset interest is capitalised at the rate applicable to that borrowing.

1 Principal accounting policies (continued)

Investment property

Property that is held to earn rental income and for capital appreciation is separately disclosed as investment property. Investment property is carried at depreciated historical cost. Depreciation rates and useful lives of investment property are the same as those for property, plant and equipment.

Leasing commitments

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets used by the Group which have been funded through finance leases are capitalised in fixed assets and the resulting lease obligations are included in creditors. The assets are depreciated over the shorter of their useful lives and the period of the lease. The interest element of the rental obligations is charged to the income statement over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged to income on a straight-line basis over the period of the lease. Premiums payable, rent free periods and contributions receivable on entering an operating lease are released to income on a straight-line basis over the lease term.

Investment in subsidiaries

The Company's investment in subsidiary undertakings is recognised at cost and is accounted for net of impairment losses. Income from investments is recognised in the income statement to the extent that post acquisition profits are received. Distributions of pre-acquisition profits reduce the cost of the investment.

Investments in joint ventures

Joint ventures are established through an interest in a jointly controlled entity. Investments in joint ventures are initially recognised at cost, being the fair value of the consideration given, and including acquisition charges associated with the investment. After initial recognition investments in joint ventures are accounted for using the equity method.

Inventories

Inventories are valued at the lower of weighted average cost and net realisable value. Net realisable value is based on estimated selling prices less further costs to be incurred to disposal. Provisions are made for obsolescence, mark down and shrinkage based on actual losses, ageing of inventories and sales trends.

Rebates receivable from suppliers

Volume related rebates receivable from suppliers are credited to the carrying value of the inventory to which they relate. Where a rebate agreement with a supplier covers more than one year, the rebates are recognised in the period in which they are earned.

Trade receivables and payables

Trade receivables and payables are initially recognised at fair value and subsequently adjusted to the amount receivable or payable. Receivables are stated net of a provision for impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank, deposits repayable on demand and highly liquid investments. For the purposes of the cash flow statement cash and cash equivalents also includes bank overdrafts.

Bank loans and overdrafts

Bank loans and overdrafts are initially recognised at fair value less directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate model.

Provisions

A provision is recognised where the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are discounted to present value, where the effect is material, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amortisation of the discount is recognised as a finance cost.

Retirement benefit obligations

The Group operates defined benefit and defined contribution schemes and also participates in a multi-employer pension scheme in respect of its employees in The Netherlands. The assets and liabilities of all schemes are held separately from those of the Group. The Group is unable to identify its share of the assets and liabilities of the multi-employer scheme and, therefore, accounts for this scheme as a defined contribution scheme. The pension cost of all defined contribution schemes is charged in the income statement as incurred.

The cost of providing benefits under the defined benefit scheme is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. The net retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation less the fair value of the scheme assets at the balance sheet date. Actuarial gains and losses are recognised in full, directly in equity in the period in which they occur and are presented in the statement of recognised income and expense. Other income and expenses associated with the defined benefit scheme are recognised in the income statement.

1 Principal accounting policies (continued)

Financial instruments

Derivative financial instruments

Derivative financial instruments ("derivatives") are used to manage risks arising from changes in foreign currency exchange rates and changes in interest rates. In accordance with its Treasury policy, the Group does not enter into derivatives for speculative purposes.

Derivatives are stated at their fair value. The fair value of interest rate contracts is the estimated amount that the Group would receive or pay to terminate them at the balance sheet date, taking into account prevailing interest rates.

Changes in the fair value of derivatives which do not qualify for hedge accounting are recognised in the income statement as they arise.

Hedge accounting

Changes in the fair value of derivatives that are designated and effective as hedges of future cash flows are recognised directly in equity and any ineffective portion is recognised immediately in the income statement. When the asset or liability for the hedged transaction is recognised in the balance sheet, the associated gain or loss on the hedging instrument previously recognised in equity is included in the carrying amount of the hedged asset or liability. Gains or losses realised on cash flow hedges are then recognised in the income statement in the same period as the hedged item.

Where the Group hedges net investments in foreign entities through currency borrowings the gains or losses on the retranslation of the borrowings are recognised in equity.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument previously recognised in equity is retained in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is then transferred to the income statement.

Critical estimates and judgements

The preparation of consolidated financial statements under IFRS requires the Group to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Impairment of goodwill

The Group is required to test whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value in use calculations. The use of this method requires the estimation of future cash flows expected to arise from the continuing operation of the cash-generating unit and the choice of a suitable discount rate in order to calculate the present value. Actual outcomes could vary significantly from these estimates.

Impairment of assets

Property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount of an asset or cash-generating unit is determined based on value in use calculations prepared on the basis of management's assumptions and estimates.

Retirement benefits

The present value of the defined benefit liabilities recognised in the balance sheet is dependent on the interest rates of high quality corporate bonds. The net financing charge is dependent on both the interest rates of high quality corporate bonds and the assumed investment returns on scheme assets. Other key assumptions for pension obligations, including mortality rates, are based in part on current market conditions.

Deferred tax

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised. The assessment of probability that such profits will be available is based on management's assumptions and estimates in projecting future profitability.

Notes to the accounts (continued)

1 Principal accounting policies (continued)

New standards and interpretations

Standards, amendments and interpretations adopted by the Group in 2007/08
The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 29 April 2007 and have been adopted by the Group:

- IFRS 7 "Financial Instruments Disclosures" and the complementary amendment to IAS 1 "Presentation of financial statements – Capital disclosures". IFRS 7 introduces new disclosures relating to financial instruments. This standard has not had any impact on the classification and valuation of the Group or Company's financial instruments.
- IFRIC 8 "Scope of IFRS 2". IFRIC 8 requires consideration of transactions involving the issuance of equity instruments where the identifiable consideration received is less than the fair value of the equity instruments issued to establish whether or not they fall within the scope of IFRS 2. The interpretation has not had any impact on the Group's financial statements.
- IFRIC 10 "Interim financial reporting and impairment". IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The interpretation has not had any impact on the Group's financial statements.

Standards, amendments and interpretations effective in 2007/08 but not relevant
The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 29 April 2007 but they are not relevant to the Group's operations:

- IFRIC 7 "Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies".
- IFRIC 9 "Re-assessment of embedded derivatives".

New standards and interpretations of existing standards that are not yet effective and have not been early adopted by the Group
The following new standards and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 4 May 2008 or later periods but which the Group has not early adopted:

- IFRS 8 "Operating segments", (effective from annual periods beginning on or after 1 January 2010) replaces IAS 14 and aligns segmental reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard uses a "management approach", under which segment information is presented on the same basis as that being used for internal reporting purposes. This is not expected to have any impact on the Group's financial statements.
- IFRIC 11 "IFRS 2 – Group and Treasury Share transactions", (effective from annual periods beginning on or after 1 January 2009) provides guidance on whether share-based transactions involving Treasury Shares or involving Group entities (for instance options over a parent's shares) should be accounted for as equity settled or cash settled. This is not expected to have any impact on the Group's financial statements.
- IFRIC 14 "IAS 19 – The limit on a defined benefit assets, minimum funding requirements and their interaction", (effective for annual periods beginning on or after 1 January 2008) provides guidance on when refunds or reductions in future contributions should be regarded as available in calculating the value of a defined benefit asset including the impact of a minimum funding requirement. The interpretation is not expected to have any impact on the Group's financial statements.

Interpretations to existing standards that are not yet effective and not relevant for the Group's operations
The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 4 May 2008 or later periods but are not relevant to the Group's operations:

- IFRIC 12 "Service Concession Arrangements", (effective for accounting periods beginning on or after 1 January 2008).
- IFRIC 13 "Customer Loyalty Programmes", (effective for accounting periods beginning on or after 1 January 2008).

2 Segmental analysis

The Group's primary reporting segment is geographic, as this is the basis on which the Group is both organised and managed. The Group does not report a secondary segment on the basis of business operations because business operations throughout the Group are the same. The geographical sectors are: United Kingdom & Republic of Ireland ("UK & RoI"), and The Netherlands, Belgium, Poland and the joint venture arrangement in Germany ("Rest of Europe"). Central costs are incurred principally in the UK and are immaterial. As such these costs are included within the UK & RoI segment. Segment revenue, expense, result, assets and liabilities include transfers between geographical segments. Such transfers are priced at arm's-length and are eliminated on consolidation.

Analysis by geography:

	53 weeks to 3 May 2008			52 weeks to 28 April 2007		
	UK & RoI £m	Rest of Europe £m	Group £m	UK & RoI £m	Rest of Europe £m	Group £m
Gross revenue	456.0	68.8	524.8	421.2	57.8	479.0
Inter-segment revenue	(3.3)	–	(3.3)	(3.1)	–	(3.1)
Segment revenue (by origin and destination)	452.7	68.8	521.5	418.1	57.8	475.9
Gross profit	284.1	39.0	323.1	258.8	32.0	290.8
Operating profit before profits/(losses) on property disposals and non-recurring items	58.0	5.4	63.4	55.6	3.9	59.5
Segment result: operating profit after profits/(losses) on property disposals and non-recurring items	55.4	5.4	60.8	63.9	4.9	68.8
Net finance costs payable			(1.3)			(1.8)
Profit before tax			59.5			67.0
Tax			(16.7)			(20.7)
Profit for the financial period			42.8			46.3
Other segmental items:						
Depreciation and amortisation	13.6	3.4	17.0	10.7	2.4	13.1
Share-based payments	–	–	–	0.5	–	0.5
Segment assets						
Gross assets (by origin and destination)[(1)(2)]	240.7	88.9	329.6	177.5	71.4	248.9
Inter-segment balances	(6.2)	–	(6.2)	(2.5)	–	(2.5)
Segment assets	234.5	88.9	323.4	175.0	71.4	246.4
Unallocated assets			12.1			21.8
Total assets			335.5			268.2
Segment liabilities						
Gross liabilities (by origin and destination)[(1)]	135.8	24.8	160.6	122.8	19.2	142.0
Inter-segment balances	–	(6.2)	(6.2)	–	(2.5)	(2.5)
Segment liabilities	135.8	18.6	154.4	122.8	16.7	139.5
Unallocated liabilities			106.8			60.7
Total liabilities			261.2			200.2
Capital expenditure						
Capital expenditure (by origin and destination)	38.0	8.5	46.5	30.1	3.1	33.2

(1) Segment assets and liabilities exclude interest-bearing balances and tax assets and liabilities.
(2) Segment assets for Rest of Europe include the equity investment in the German joint venture.

Notes to the accounts (continued)

3 Operating profit

Operating profit is stated after charging/(crediting):

	Note	Group 2008 £m	Group 2007 £m
Rental income earned on investment property		(1.7)	(1.6)
Cost of inventories recognised as an expense in cost of sales		177.5	163.8
Operating lease rentals			
Minimum lease payments in respect of land and buildings		85.0	71.7
Minimum lease payments in respect of plant and machinery		1.4	1.6
Sublease rental income		(3.7)	(2.8)
Auditors' remuneration:			
Fees payable to the Company's auditor for the audit of the Company's annual financial statements		0.2	0.1
Non audit services – tax services		–	0.1
Staff costs	4	99.0	92.3
Amortisation of intangible assets			
Charged in administration expenses		2.1	1.0
Depreciation of property, plant and equipment:			
Owned assets			
Charged in cost of sales		1.0	–
Charged in administration expenses		12.9	10.9
Under finance leases			
Charged in cost of sales		0.7	0.7
Charged in administration expenses		0.1	0.1
Depreciation of investment property			
Charged in administration expenses		0.1	0.3
Charged in other operating income		0.1	0.1

4 Staff costs

The average number of persons (full-time equivalents) employed by the Group (including Directors) was as follows:

	Group 2008 Number	Group 2007 Number	Company 2008 Number	Company 2007 Number
Stores	**3,127**	2,933	**2,597**	2,453
Central support office and warehouse	**422**	390	**371**	341
	3,549	3,323	**2,968**	2,794

The aggregate employment costs of employees and Directors were as follows:

	Note	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Wages and salaries (including short-term employee benefits)		**87.6**	81.8	**72.9**	70.3
Social security costs		**9.2**	8.2	**7.5**	6.8
Post employment benefits		**2.2**	1.8	**1.4**	1.2
Share-based payments	5	**–**	0.5	**–**	0.5
		99.0	92.3	**81.8**	78.8

Wages and salaries include short-term employee benefits as defined in IAS 19, with the exception of costs associated with the Group's pension schemes. Post employment benefits include costs associated with the Group's pension schemes with the exception of net interest costs and the actuarial gain on the defined benefit pension scheme. £0.5 million (2007: £0.5 million) in defined benefit pension costs are allocated to administrative expenses. Share-based payments comprise the cost of awards in respect of employee share schemes in accordance with IFRS 2. These costs are explained in Note 5.

The employment costs of key management[(1)] were as follows:

	Group 2008 £m	Group 2007 £m
Salaries (including short-term employee benefits)	**3.6**	2.8
Social security costs	**0.4**	0.3
Post employment benefits	**0.3**	0.3
Share-based payments	**–**	0.4
	4.3	3.8

(1) Key management comprises Group Directors and those senior officers of the Group responsible for planning, directing or controlling Group activities.

During the year the Executive Directors realised gains totalling £0.1 million on the vesting of the 2004 Long-Term Incentive Plan (2007: £nil). Details of these gains, share options and other Directors' remuneration are disclosed in the Directors' remuneration report on pages 27 to 32.

Notes to the accounts (continued)

5 Share-based payments

Included within administrative expenses is £nil (2007: a charge of £0.5 million) in respect of equity-settled share-based payments.

The Group's employee share schemes are described below and additional detail is disclosed in the Directors' remuneration report on pages 27 to 32. Scheme participants are either Directors of the Company or employees of the Group. The costs associated with all of the other scheme participants are accounted for in full in the Company's accounts.

(i) LTIP

Under this scheme participants may receive annual awards in the form of contingent entitlements to Company shares. These entitlements are equity-settled through the purchase of existing shares by the administering Trust. The shares vest three years after award if participants remain with the Group during the vesting period and the Group meets targeted levels of total shareholder return ("TSR") and earnings per share ("EPS") growth. The performance conditions are fully described in the Directors' remuneration report in the section titled Long-Term Incentive Plan.

During the period contingent entitlements to nil shares were awarded (2007: 101,816 shares vesting on 15 September 2009). The credit recognised in the income statement in respect of all LTIP awards is £0.1 million (2007: a charge of £0.4 million). The one-off executive award to Mr Kenyon lapsed during the period. The fair values of the awards are determined using a Monte-Carlo simulation model which takes account of the performance conditions described in the preceding paragraph. The fair value per share is based on the expected number of shares that will vest. LTIP shares do not earn dividends during the vesting period. The Group's LTIP is administered by the Equity Trust (Guernsey) Limited which holds Company shares that will be used to satisfy the LTIP award. The Trust's shareholding in 2008 was 21,543 shares (2007: 43,575). These shares are classified as Treasury shares in accordance with IAS 32.

Reconciliation of movements in the periods ended 3 May 2008

	LTIP 2007		LTIP 2006		LTIP 2005		Executive LTIP award	
	Number of options '000s	Fair value £m	Number of options '000s	Fair value £m	Number of options '000s	Fair value £m	Number of options '000s	Fair value £m
Outstanding at 29 April 2006	–	–	121.5	0.5	63.2	0.3	40.0	0.3
Granted	101.8	0.3	–	–	–	–	–	–
Outstanding at 28 April 2007	101.8	0.3	121.5	0.5	63.2	0.3	40.0	0.3
Forfeited	**–**	**–**	**–**	**–**	**–**	**–**	**(40.0)**	**(0.3)**
Vested	**–**	**–**	**–**	**–**	**(22.0)**	**(0.2)**	**–**	**–**
Expired	**–**	**–**	**–**	**–**	**(41.2)**	**(0.1)**	**–**	**–**
Outstanding at 3 May 2008	**101.8**	**0.3**	**121.5**	**0.5**	**–**	**–**	**–**	**–**
Excercisable at 3 May 2008	**–**		**–**		**–**		**–**	
Exercisable at 28 April 2007	–		–		–		–	

The valuation assumptions used in the application of the Monte-Carlo and Black-Scholes' models applied to the relevant schemes above are as follows:

Valuation assumptions	LTIP 2007 award	LTIP 2006 award	LTIP 2005 award	Executive LTIP award
Fair value per share (pence)	773	693	928	837
Share price at grant (pence)	1,177	926	1,047	960
Exercise price (pence)	1	1	1	1
Expected volatility (%)[1]	23.0	22.2	23.3	–
Vesting period (years)	3	3	3	3
Dividend yield (%)	4.2	5.1	4.2	4.6
Risk free interest rate (%)	4.9	4.2	4.9	4.1
Possibility of ceasing employment before vesting (%)	–	5.0	6.0	–

(1) Expected volatility is based on historical volatility over the three or five year period respectively preceding the date of grant. The risk free interest rate is the yield on zero-coupon UK government bonds at the date of grant of the respective awards over a term consistent with the vesting period.

5 Share-based payments (continued)

(ii) Savings Related Share Option Scheme ("SAYE")

Three and five year SAYE schemes were introduced in 2004. Employees and Executive Directors are invited to subscribe for options over shares in the Company at a 20% discount. The options are exercisable within six months from the third or fifth anniversary of the grant date. The entitlement to share options is equity-settled. Funds for the purchase of Company shares are built up through the contribution of a maximum of £250 per month from salary. During the period options were granted over 300,648 shares in respect of a three year and five year award exercisable between April and October 2011, and April and October 2013 respectively. The 2008 tranche of share options are exercisable at 618 pence per share (2007: 1,040 pence per share). There are no vesting conditions other than continued employment with the Group until the respective exercise dates. Share options were valued using a Black-Scholes option-pricing model. The fair value per share is based on the expected number of shares that will vest. The cost charged to the income statement in respect of this scheme is £0.1 million (2007: £0.1 million).

Reconciliation of movements in the periods ended 3 May 2008

	SAYE 2008		SAYE 2007		SAYE 2006		SAYE 2005	
	3 year Number of options '000s	**5 year Number of options '000s**	3 year Number of options '000s	5 year Number of options '000s	3 year Number of options '000s	5 year Number of options '000s	3 year Number of options '000s	5 year Number of options '000s
Outstanding at 29 April 2006	**–**	**–**	–	–	32.0	42.6	73.8	156.4
Granted	**–**	**–**	33.8	39.9	–	–	–	–
Forfeited	**–**	**–**	(0.6)	(0.7)	(6.0)	(5.0)	(11.4)	(13.4)
Outstanding at 28 April 2007	**–**	**–**	33.2	39.2	26.0	37.6	62.4	143.0
Granted	**141.2**	**159.4**	**–**	**–**	**–**	**–**	**–**	**–**
Forfeited	**(0.6)**	**–**	**(18.3)**	**(23.8)**	**(10.9)**	**(21.0)**	**(7.3)**	**(80.0)**
Vested	**–**	**–**	**–**	**–**	**(0.1)**	**–**	**(2.0)**	**–**
Outstanding at 3 May 2008	**140.6**	**159.4**	**14.9**	**15.4**	**15.0**	**16.6**	**53.1**	**63.0**
Excercisable at 3 May 2008	**–**	**–**	**–**	**–**	**–**	**–**	**53.1**	**–**
Exercisable at 28 April 2007	**–**	**–**	–	–	–	–	–	–

The valuation assumptions used in the application of the Black-Scholes' models applied to the relevant schemes above are as follows:

Valuation assumptions	**2008 3 year scheme**	**2008 5 year scheme**	2007 3 year scheme	2007 5 year scheme	2006 3 year scheme	2006 5 year scheme	2005 3 year scheme	2005 5 year scheme
Fair value per share (pence)	**148**	**132**	322	352	256	265	274	295
Share price at grant (pence)	**723**	**723**	1,237	1,237	1,072	1,072	1,126	1,126
Exercise price (pence)	**618**	**618**	1,040	1,040	840	840	901	901
Expected volatility (%)(1)	**33.6**	**29.7**	19.9	21.6	22.7	22.9	22.7	23.6
Vesting period (years)	**3.1**	**5.1**	3.1	5.1	3.1	5.1	3.1	5.1
Dividend yield (%)	**7.2**	**7.2**	3.8	3.8	4.4	4.4	3.9	3.9
Risk free interest rate (%)	**4.1**	**4.1**	5.5	5.3	4.4	4.3	4.6	4.6
Possibility of ceasing employment before vesting (%)	**40**	**50**	40	50	40	50	40	50

(1) Expected volatility is based on historical volatility over the three or five year period respectively preceding the date of grant. The risk free interest rate is the yield on zero-coupon UK government bonds at the date of grant of the respective awards over a term consistent with the vesting period.

(iii) All Employee Share Ownership Plan ("AESOP")

Under this scheme staff are invited to contribute up to £125 per month from pre-tax salary to purchase Company shares. The Group does not incur a share-based payment charge in respect of this scheme since the Company shares are acquired at market value and are not subject to an accumulation period.

Notes to the accounts (continued)

6 (Losses)/profits on property disposals and non-recurring items

	Group 2008 £m	Group 2007 £m
Disclosed in the income statement:		
Profits on property disposals	**7.0**	9.3
Pre-opening costs relating to the new cutting and distribution centre	**(7.8)**	–
Post acquisition reorganisation of the Storeys business	**(1.8)**	–
	(2.6)	9.3

The pre-opening costs relating to the new cutting and distribution centre are the dual running costs incurred in the start-up phase of the new site while the four, now closed, existing centres were also in operation, together with the costs of exiting those four sites.

The post acquisition reorganisation costs of the Storeys business are primarily redundancy and other costs arising from the integration of the distribution and support functions into Carpetright.

7 Net finance costs

	Group 2008 £m	Group 2007 £m
Finance costs payable		
Interest on borrowings and overdrafts	**2.5**	1.7
Interest on obligations under finance leases	**0.3**	0.3
Interest on pension scheme obligations (Note 24)	**0.8**	0.5
Other interest payable	**0.1**	0.1
Less: interest capitalised (Note 12)	**(0.9)**	–
	2.8	2.6
Finance income receivable		
Interest on cash and cash equivalents	**0.7**	0.2
Expected return on pension scheme assets (Note 24)	**0.8**	0.5
Other interest receivable	**–**	0.1
	1.5	0.8
Net finance costs	**1.3**	1.8

8 Tax

(i) Analysis of the charge in the period

	Group 2008 £m	Group 2007 £m
UK current tax	**14.9**	16.1
Overseas current tax	**1.4**	0.8
Total current tax	**16.3**	16.9
UK deferred tax	**3.8**	3.8
Overseas deferred tax	**(1.9)**	–
Adjustments in respect of changes in tax rates	**(1.5)**	–
Total deferred tax	**0.4**	3.8
Total tax charge in the income statement	**16.7**	20.7

Tax of £0.9 million has been credited to the income statement (2007: £2.6 million charge) in respect of profits/(losses) on property disposals and non-recurring items. The adjustment of £1.5 million in respect of the change in the UK corporation tax rate has been treated as a non-recurring tax credit.

8 Tax (continued)

(ii) Reconciliation of profit before tax to total tax

	Group 2008 £m	Group 2007 £m
Profit before tax	**59.5**	67.0
Tax charge at UK Corporation Tax rate of 29.83% (2007: 30%)	**17.7**	20.1
Adjusted for the effects of:		
Overseas tax rates	**(0.3)**	(0.4)
Recognition of historic overseas tax losses	**(2.3)**	–
Non-qualifying depreciation	**0.7**	0.6
Foreign exchange movements on foreign deferred tax	**0.9**	–
Other permanent differences	**1.9**	0.3
Adjustments in respect of changes in tax rates on deferred tax	**(1.5)**	–
Adjustments in respect of prior periods	**(0.4)**	0.1
Total tax charge in the income statement	**16.7**	20.7

The weighted average annual effective tax rate for the year is 28.1% (2007: 30.8%). The reduction in this rate results primarily from the change in the UK Corporation Tax rate from 30% to 28% from 6 April 2008 where deferred tax carried in the balance sheet has been recalculated to reflect this new rate, the recognition of historic overseas losses as a deferred tax asset and the level of permanent differences.

(iii) Tax on items taken directly to or transferred from equity

	Group 2008 £m	Group 2007 £m
Deferred tax on actuarial gains, recognised in the SORIE	**–**	0.1
Deferred tax on share-based payments	**(0.1)**	–
Total tax recognised in equity	**(0.1)**	0.1

9 Dividends

	2008		2007	
	Pence per share	£m	Pence per share	£m
Group and Company				
Prior year final dividend paid	**30.0**	**20.4**	30.0	20.4
Current year interim dividend paid	**22.0**	**14.8**	20.0	13.5
	52.0	**35.2**	50.0	33.9

The Directors propose a final dividend of 30.0 pence per share amounting to £20.2 million (2007: 30.0 pence per share; £20.4 million) which is not included as a liability in these financial statements. Subject to approval by the shareholders at the Annual General Meeting, the proposed dividend will be paid on 26 September 2008 to shareholders who are on the register of members on 12 September 2008.

This would take the 2008 interim and final dividend payments to 52.0 pence amounting to £35.0 million (2007: 50.0 pence; £33.9 million).

Notes to the accounts (continued)

10 Earnings per share

Basic earnings per share is calculated by dividing earnings attributable to Ordinary shareholders by the weighted average number of Ordinary shares in issue during the period, excluding those held by Equity Trust (Guernsey) Limited (see Note 5) which are treated as cancelled.

In order to compute diluted earnings per share, the weighted average number of Ordinary shares in issue is adjusted to assume conversion of all potentially dilutive Ordinary shares. Those share options granted to employees and Executive Directors where the exercise price is less than the average market price of the Company's Ordinary shares during the period, represent potentially dilutive Ordinary shares.

	2008			2007		
	Earnings £m	Weighted average number of shares Millions	Earnings per share Pence	Earnings £m	Weighted average number of shares Millions	Earnings per share Pence
Basic earnings per share	**42.8**	**67.7**	**63.2**	46.3	67.9	68.2
Effect of dilutive share options	**0.1**	**0.2**	**–**	0.1	0.1	–
Diluted earnings per share	**42.9**	**67.9**	**63.2**	46.4	68.0	68.2

Reconciliation of earnings per share excluding post tax profit on property disposals and non-recurring items:

	2008			2007		
	Earnings £m	Weighted average number of shares Millions	Earnings per share Pence	Earnings £m	Weighted average number of shares Millions	Earnings per share Pence
Basic earnings per share	**42.8**	**67.7**	**63.2**	46.3	67.9	68.2
Adjusted for the effect of profit on property disposals	**(7.0)**	**–**	**(10.3)**	(9.3)	–	(13.7)
Adjusted for the effect of non-recurring items	**9.6**	**–**	**14.1**	–	–	–
Tax thereon	**(0.9)**	**–**	**(1.3)**	2.6	–	3.8
Non-recurring tax benefit from the impact of the decrease in UK Corporation Tax rates on the opening deferred tax provision (Note 8)	**(1.5)**	**–**	**(2.2)**	–	–	–
Underlying earnings per share	**43.0**	**67.7**	**63.5**	39.6	67.9	58.3

The Directors have presented an additional measure of earnings per share based on underlying earnings. This is in accordance with the practice adopted by most major retailers. Underlying earnings is defined as profit excluding profit on property disposals and non-recurring items and related tax.

11 Intangible assets

Group

	Goodwill £m	Computer software[1] £m	Brands £m	Total £m
Cost:				
At 29 April 2006	21.0	15.0	0.1	36.1
Exchange differences	(0.2)	–	–	(0.2)
Additions	–	5.8	–	5.8
At 28 April 2007	20.8	20.8	0.1	41.7
Exchange differences	2.1	–	–	2.1
Acquisition of subsidiaries (Note 32)	21.9	–	–	21.9
Additions	–	2.0	–	2.0
Disposals	–	(1.0)	–	(1.0)
At 3 May 2008	**44.8**	**21.8**	**0.1**	**66.7**
Accumulated amortisation and impairment:				
At 29 April 2006	0.5	1.2	0.1	1.8
Amortisation	–	1.0	–	1.0
At 28 April 2007	0.5	2.2	0.1	2.8
Amortisation	–	2.1	–	2.1
Disposals	–	(0.4)	–	(0.4)
At 3 May 2008	**0.5**	**3.9**	**0.1**	**4.5**
Net book value:				
At 3 May 2008	**44.3**	**17.9**	**–**	**62.2**
At 28 April 2007	20.3	18.6	–	38.9

(1) Computer software relates principally to the external costs of the central SAP systems and in-store systems.

Company

	Computer software £m	Brands £m	Total £m
Cost:			
At 29 April 2006	15.0	0.1	15.1
Additions	5.7	–	5.7
At 28 April 2007	20.7	0.1	20.8
Additions	1.5	–	1.5
Disposals	(0.5)	–	(0.5)
At 3 May 2008	**21.7**	**0.1**	**21.8**
Accumulated amortisation and impairment:			
At 29 April 2006	1.2	0.1	1.3
Amortisation	1.0	–	1.0
At 28 April 2007	2.2	0.1	2.3
Amortisation	2.1	–	2.1
Disposals	(0.4)	–	(0.4)
At 3 May 2008	**3.9**	**0.1**	**4.0**
Net book value:			
At 3 May 2008	**17.8**	**–**	**17.8**
At 28 April 2007	18.5	–	18.5

Notes to the accounts (continued)

11 Intangible assets (continued)

Goodwill is not amortised. Instead it is subject to an impairment review at each reporting date or more frequently if there is an indication that it may be impaired. Other intangibles are amortised and also tested for impairment when there is an indication that the asset may be impaired. Goodwill impairment, intangible amortisation and impairment and reversals thereof are recognised in full in administrative expenses in the income statement during the period in which they are identified.

Goodwill comprises purchased goodwill in respect of the Storeys and Carpetworld businesses in the current year, £15.3 million and £6.6 million respectively, the Mays business in June 2005, £4.7 million, and The Netherlands and Belgian businesses (valued in Euros) in 2002, £17.7 million. Goodwill is allocated to the cash generating units to which it relates.

Goodwill is impaired if the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and the value in use. In the absence of a recent market transaction the recoverable amount is determined from value in use calculations. These calculations are based on 10 year profit projections, the same period used by the Group for appraising the potential of business acquisitions, adjusted for non-cash items, planned working capital movements and capital expenditure. Cash flows beyond the first five year period are extrapolated at a constant growth rate of 2.5% (2007: 2.5%). The growth rate is in line with long-term growth rates of the countries in which the Group operates. The pre-tax discount rate applied to cash flow projections is 10.8% (2007: between 10% and 11%) and is based on the Group's weighted average cost of capital adjusted to reflect the risks of the businesses acquired. Based on these calculations goodwill is not impaired.

12 Property, plant and equipment

Group

	Freehold land and buildings £m	Long leasehold land and buildings £m	Short leasehold buildings £m	Fixtures and fittings £m	Plant and machinery £m	Total £m
Cost:						
At 29 April 2006	63.0	10.4	18.2	59.9	28.2	179.7
Exchange differences	(0.4)	–	–	(0.1)	(0.4)	(0.9)
Additions	6.7	1.6	3.1	12.6	2.9	26.9
Disposals	(10.4)	(3.4)	(0.8)	(1.2)	–	(15.8)
At 28 April 2007	58.9	8.6	20.5	71.2	30.7	189.9
Exchange differences	3.6	0.1	0.1	2.0	2.6	8.4
Additions	10.8	2.5	0.7	25.4	8.1	47.5
Interest capitalised (Note 7)	0.2	–	–	0.7	–	0.9
Acquisition of subsidiaries (Note 32)	10.8	6.1	0.5	1.3	0.6	19.3
Disposals	(12.4)	–	(1.0)	(7.1)	(2.1)	(22.6)
At 3 May 2008	**71.9**	**17.3**	**20.8**	**93.5**	**39.9**	**243.4**
Accumulated depreciation and impairment:						
At 29 April 2006	3.8	1.3	5.9	29.1	17.6	57.7
Exchange differences	(0.2)	–	–	(0.1)	(0.2)	(0.5)
Depreciation	0.8	0.2	0.9	7.3	2.5	11.7
Disposals	(1.4)	(0.2)	(0.4)	(0.8)	–	(2.8)
At 28 April 2007	3.0	1.3	6.4	35.5	19.9	66.1
Exchange differences	0.2	–	–	1.2	1.8	3.2
Depreciation	1.2	0.2	1.2	8.0	4.1	14.7
Disposals	(0.4)	–	(0.4)	(4.1)	(1.7)	(6.6)
At 3 May 2008	**4.0**	**1.5**	**7.2**	**40.6**	**24.1**	**77.4**
Net book value:						
At 3 May 2008	**67.9**	**15.8**	**13.6**	**52.9**	**15.8**	**166.0**
At 28 April 2007	55.9	7.3	14.1	35.7	10.8	123.8

Capitalised interest

Interest capitalised during the year amounted to £0.9 million (2007: £nil) using an average rate of 6.1%.

12 Property, plant and equipment (continued)

Assets held under finance leases have the following net book value:

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Cost	**7.1**	6.4	**7.1**	6.4
Accumulated depreciation and impairment	**(3.3)**	(2.4)	**(3.3)**	(2.4)
Net book value	**3.8**	4.0	**3.8**	4.0

Included in assets held under finance leases are plant and machinery with a net book value of £1.9 million (2007: £2.5 million) and buildings with a net book value of £1.9 million (2007: £1.5 million).

Company

	Freehold land and buildings £m	Long leasehold land and buildings £m	Short leasehold buildings £m	Fixtures and fittings £m	Plant and machinery £m	Total £m
Cost:						
At 29 April 2006	37.0	10.2	18.1	51.9	11.4	128.6
Additions	6.7	1.5	3.0	11.5	1.4	24.1
Disposals	(10.0)	(3.4)	(0.7)	(1.2)	–	(15.3)
At 28 April 2007	33.7	8.3	20.4	62.2	12.8	137.4
Exchange differences	–	0.1	0.2	0.5	–	0.8
Additions	5.1	2.4	0.6	24.3	6.6	39.0
Interest capitalised	0.2	–	–	0.7	–	0.9
Transfer from subsidiary	4.4	–	0.5	1.0	0.6	6.5
Disposals	(12.4)	–	(1.0)	(7.1)	(1.9)	(22.4)
At 3 May 2008	**31.0**	**10.8**	**20.7**	**81.6**	**18.1**	**162.2**
Accumulated depreciation and impairment:						
At 29 April 2006	2.1	1.4	5.9	23.1	6.0	38.5
Depreciation	0.3	0.2	0.9	6.6	1.6	9.6
Disposals	(1.4)	(0.2)	(0.4)	(0.8)	–	(2.8)
At 28 April 2007	1.0	1.4	6.4	28.9	7.6	45.3
Exchange differences	–	–	–	0.2	–	0.2
Depreciation	0.4	0.1	1.3	7.2	2.5	11.5
Disposals	(0.4)	–	(0.4)	(4.1)	(1.5)	(6.4)
At 3 May 2008	**1.0**	**1.5**	**7.3**	**32.2**	**8.6**	**50.6**
Net book value:						
At 3 May 2008	**30.0**	**9.3**	**13.4**	**49.4**	**9.5**	**111.6**
At 28 April 2007	32.7	6.9	14.0	33.3	5.2	92.1

Notes to the accounts (continued)

13 Investment property

While investment property has not been independently valued the Directors believe that the value of such properties is approximately £27 million (2007: between £24 million and £26 million). Operating expenses attributable to investment properties are incurred directly by tenants under tenant-repairing leases.

	Group £m	Company £m
Cost:		
At 29 April 2006	22.5	7.6
Exchange differences	(0.2)	–
Additions	0.4	0.3
Disposals	(2.4)	–
At 28 April 2007	20.3	7.9
Exchange differences	1.9	–
At 3 May 2008	**22.2**	**7.9**
Accumulated depreciation and impairment:		
At 29 April 2006	1.2	0.2
Depreciation	0.4	0.1
Disposals	(0.8)	–
At 28 April 2007	0.8	0.3
Exchange differences	0.2	–
Depreciation	0.2	–
At 3 May 2008	**1.2**	**0.3**
Net book value:		
At 3 May 2008	**21.0**	**7.6**
At 28 April 2007	19.5	7.6

14 Investment in subsidiary undertakings

The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the Directors, principally affect the figures of the Group. All of the Group's subsidiary undertakings are included in the consolidated accounts.

	Country of incorporation and operation	Principal activity	Percentage of Ordinary shares held directly	Percentage of Ordinary shares held indirectly
Carpetright of London Limited	Great Britain	Holding	100%	
Storey Carpets Limited	Great Britain	Retail	100%	
Melford Commercial Properties Limited	Great Britain	Property	100%	
Carpetworld Manchester Limited	Great Britain	Retail		100%
Carpetland NV	Belgium	Retail		100%
Infradis Real Estate NV	Belgium	Property		100%
Carpetland BV	The Netherlands	Retail		100%
Fontainebleau Vastgoed BV	The Netherlands	Property		100%
Carpetright Poland Sp. Z.o.o.	Poland	Retail	100%	

14 Investment in subsidiary undertakings (continued)

Company

	2008 £m	2007 £m
Cost:		
At the beginning of the period	**10.8**	12.5
Exchange differences	**0.1**	–
Acquisition of shares in subsidiaries	**29.2**	0.3
Dividend received from subsidiary	**–**	(2.0)
At the end of the period	**40.1**	10.8

During the period the Company subscribed £2.1 million (2007: £0.3 million) for additional share capital in Carpetright Poland Sp. Z.o.o.

15 Investment in joint ventures

At 3 May 2008 the Group had invested £0.2 million in a joint venture with a German partner. The first trading outlet opened in April 2008. The result of the joint venture is £nil and does not change the value of the investment.

The investment in the joint ventures is:

	Country of incorporation and operation	Principal activity	Proportion of ownership interest	Proportion of voting power held
Carpri Handels GmbH	Germany	Retail	50%	50%

Group and Company

	2008 £m	2007 £m
Cost:		
At the beginning of the period	**–**	–
Additions:		
Acquisition of shares in joint ventures	**0.2**	–
At the end of the period	**0.2**	–

The value of the joint ventures' capital commitments and contingent liabilities are both £nil.

16 Inventories

Group and Company inventories are held in the form of finished goods for resale. The write down of stock values to net realisable value during the current and comparative periods are immaterial.

17 Trade and other receivables

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Non-current				
Receivables from subsidiaries	**–**	–	**48.7**	37.4
Prepayments and accrued income	**1.3**	1.6	**1.3**	1.6
	1.3	1.6	**50.0**	39.0
Current				
Trade receivables	**5.0**	5.5	**4.6**	5.0
Less: provision for impairment	**(0.6)**	(0.6)	**(0.5)**	(0.5)
	4.4	4.9	**4.1**	4.5
Other receivables	**3.6**	6.0	**2.9**	3.0
Prepayments and accrued income	**24.6**	15.8	**17.3**	14.4
	32.6	26.7	**24.3**	21.9
Total trade and other receivables	**33.9**	28.3	**74.3**	60.9

The Directors consider that the carrying amount of trade and other receivables approximate their fair value.

Notes to the accounts (continued)

17 Trade and other receivables (continued)

Provision for impairment

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
At the beginning of the period	**0.6**	0.6	**0.5**	0.5
Receivables written off against the provision in the period	**(0.5)**	–	**(0.5)**	–
Increase in the provision in the period	**0.5**	–	**0.5**	–
	0.6	0.6	**0.5**	0.5

The table below shows the financial assets included in trade and other receivables at the balance sheet date:

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Major insurance companies	**0.6**	0.9	**0.6**	0.9
Property rent debtors	**1.1**	1.9	**1.1**	1.9
Other debtors	**1.7**	3.2	**1.1**	0.2
Retail customers	**4.6**	4.9	**4.2**	4.5
	8.0	10.9	**7.0**	7.5

Balances from retail customers are considered to have little credit risk as they are primarily settled by cash or major credit card and must be settled prior to the goods being collected from/delivered by the store.

The age profile of balances other than those with retail customers is set out below:

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Neither past due nor impaired	**2.8**	4.2	**2.2**	1.2
30 to 60 days	**0.1**	0.3	**0.1**	0.3
60 to 90 days	**0.1**	0.1	**0.1**	0.1
Over 90 days	**0.4**	1.4	**0.4**	1.4
	3.4	6.0	**2.8**	3.0

18 Cash and cash equivalents

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Cash at bank and in hand	**6.3**	8.4	**0.6**	2.4
Overnight deposits	**2.6**	12.3	**2.6**	12.3
Cash and cash equivalents on the balance sheets	**8.9**	20.7	**3.2**	14.7
Bank overdrafts (Note 21)	**(11.1)**	(1.5)	**(8.5)**	–
Cash and cash equivalents in the cash flow statements	**(2.2)**	19.2	**(5.3)**	14.7

19 Trade and other payables

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Current				
Trade payables	**55.6**	55.2	**45.6**	46.5
Other taxes and social security	**18.2**	17.5	**14.4**	14.6
Accruals and deferred income	**49.6**	47.4	**42.4**	42.3
	123.4	120.1	**102.4**	103.4
Non-current				
Accruals and deferred income	**28.3**	17.6	**28.3**	17.6
	28.3	17.6	**28.3**	17.6
Total trade and other payables	**151.7**	137.7	**130.7**	121.0

Trade payables comprise amounts outstanding for trade purchases and ongoing costs. Refer to the Directors' report for the average credit period taken for trade purchases. The Directors consider that the carrying amount of trade and other payables approximates their fair value.

20 Obligation under finance leases

	Minimum lease payments			Present value of minimum lease payments		
	Group 2008 £m	Company 2008 £m	Group and Company 2007 £m	Group 2008 £m	Company 2008 £m	Group and Company 2007 £m
Amounts payable within one year	1.1	1.1	1.1	0.8	0.8	0.8
Amounts payable between one and five years	2.1	1.8	2.6	1.2	1.2	1.9
Amounts payable after five years	6.6	2.7	3.0	2.7	1.7	1.8
	9.8	5.6	6.7	4.7	3.7	4.5
Less: future finance charges	(5.1)	(1.9)	(2.2)			
Present value of obligation under finance leases	4.7	3.7	4.5			
Current	0.8	0.8	0.8			
Non-current	3.9	2.9	3.7			

It is the Group's policy to lease certain properties and vehicles under finance leases. The average lease term is 22 years and two years (2007: 18 years and three years) for properties and vehicles respectively. Minimum lease payments are discounted at the rate inherent in the leases. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

21 Borrowings and overdrafts

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Current				
Unsecured overdraft	11.1	1.5	8.5	–
Borrowings:				
Secured	3.6	0.4	–	–
Unsecured	7.7	10.3	3.0	6.9
Borrowings and overdrafts	22.4	12.2	11.5	6.9
Non-current				
Borrowings:				
Secured	38.4	3.2	35.1	–
Unsecured	0.9	7.8	–	–
Borrowings	39.3	11.0	35.1	–
Total borrowings and overdrafts	61.7	23.2	46.6	6.9

Secured borrowings are denominated in Sterling and Euros and are secured on certain of the Group's freehold properties.

The effective interest rates at the year end are as follows:

	Group 2008 %	Group 2007 %	Company 2008 %	Company 2007 %
Overdrafts	5.6	5.0	5.6	5.6
Borrowings	5.9	4.2	6.3	3.6

The maturity profile of borrowings and overdrafts are as follows:

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Amounts payable within one year	22.4	12.2	11.5	6.9
Amounts payable between one and two years	4.5	3.8	3.1	–
Amounts payable between two and five years	33.4	5.6	32.0	–
Amounts payable after five years	1.4	1.6	–	–
	61.7	23.2	46.6	6.9

The maturity analysis is grouped by when the debt is contracted to mature rather than by repricing dates.

Notes to the accounts (continued)

22 Provisions for liabilities and charges

Group and Company

	Onerous lease provisions £m	Reorganisation provisions £m	Total provisions £m
At the beginning of the period	–	–	–
Added during the period	0.4	0.6	1.0
Acquisition of subsidiaries	0.9	–	0.9
Utilised during the period	(0.5)	–	(0.5)
At the end of the period	**0.8**	**0.6**	**1.4**

Onerous lease provisions are expected to be used over periods of up to 10 years. Reorganisation provisions are expected to be used within the 2008/09 financial year.

23 Deferred tax assets and liabilities

	Note	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
Recognised in the income statement:					
Accelerated capital allowances		7.6	6.2	6.0	4.9
Fair value of acquired property, plant and equipment		4.1	3.8	–	–
Rollover relief		14.9	13.8	14.9	13.8
Short-term temporary differences		0.1	0.1	(0.5)	(0.5)
Tax losses		(0.2)	–	–	–
Recognised in equity:					
Share-based payments		–	(0.1)	–	(0.1)
Retirement benefit obligations	24(i)(a)(8)	(0.5)	(0.5)	(0.5)	(0.5)
Acquisition of subsidiaries:					
Fair value of acquired property, plant and equipment		1.4	–	0.7	–
Rollover relief		1.4	–	–	–
Short-term temporary differences		0.1	–	–	–
Gross deferred tax liabilities		**28.9**	**23.3**	**20.6**	**17.6**
Recognised in the income statement:					
Tax losses		3.2	1.1	–	–
Short-term temporary differences		–	(0.1)	–	–
Gross deferred tax assets		**3.2**	**1.0**	**–**	**–**
Net deferred tax liabilities		**25.7**	**22.3**	**20.6**	**17.6**

The gross movement on the deferred tax account is as follows:

	Group 2008 £m	Group 2007 £m	Company 2008 £m	Company 2007 £m
At the beginning of the period	22.3	18.7	17.6	13.9
Acquisition of subsidiaries	2.9	–	0.7	–
Charged to income statement (Note 8)	0.4	3.7	2.3	3.8
Charged directly to equity	0.1	(0.1)	–	(0.1)
At the end of the period	**25.7**	**22.3**	**20.6**	**17.6**

At the reporting date, the Group had unused tax losses of £8.7 million (2007: £6.8 million) which can be carried forward indefinitely and are available for offset against future profits. A deferred tax asset of £3.2 million (2007: £1.1 million) has been recognised in respect of these losses.

Deferred tax assets of £1.1 million (2007: £1.1 million) were available for offset against deferred tax liabilities of £30.0 million (2007: £24.4 million) and hence net deferred tax liabilities at 3 May 2008 are £28.9 million (2007: £23.3 million).

24 Retirement benefit obligations

The Group operates a variety of pension schemes, principally in the UK, The Netherlands and Belgium. They comprise defined benefit schemes where benefits are based on employees' length of service and average final salary, and defined contribution schemes where the respective company pays a set contribution to the scheme. The UK defined benefit schemes referred to in 24 (i) (a) and the first two defined contribution schemes referred to in 24 (ii) are accounted for by the Group.

(i) Defined benefit schemes

(a) UK defined benefit schemes

The Company operates a funded defined benefit pension scheme providing benefits based on final pensionable pay for its employees and assumed the liability for the scheme previously operated by Storeys Carpets Ltd (Storeys). The Company scheme was closed to new members on 31 March 2006. The assets of the schemes are held separately from those of the Company, those of the Company scheme being invested in a Managed Fund operated by SEI. Contributions are determined by a qualified actuary using the projected unit method. The most recent actuarial review was at 6 April 2005 when the actuarial value of the assets represented 91% of the benefits accrued to members after allowing for expected future increases in earnings. The Storeys scheme is also closed to new members and the assets of the scheme are held separately from those of the Company in independently managed funds. The most recent actuarial review of the Storeys scheme was at 1 March 2005. The Storeys scheme has only one active member. The numbers set out below are the aggregate of the two schemes.

The assets and liabilities of the schemes were valued on an IAS 19 basis at 3 May 2008 by a qualified actuary.

1) Key assumptions used:

	2008 %	2007 %
Expected rate of salary increases	**4.3**	3.8
Expected rate of pension increases	**3.5**	3.0
Discount rate	**6.5**	5.4
Expected rate of inflation	**3.5**	3.0
Expected return on schemes assets	**6.9**	7.0

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. The assumptions used for future life expectancy of members of the schemes are derived from industry dates and standard tables. Specifically the PMA 92 table with medium cohort improvement has been used for male pensioners and the PFA 92 table with medium cohort improvement for female pensioners projected by year of birth.

The most significant assumptions are the expected return on scheme assets, salary increases and the discount rate, of which the most sensitive assumption is the discount rate. If this assumption increased or decreased by 0.1% the defined benefit obligation would change by £0.2 million (2007: £0.2 million).

2) The amount included in the balance sheet arising from the Group and Company's obligation in respect of the defined benefit schemes is as follows:

	2008 £m	2007 £m
Present value of pension schemes obligations	**16.1**	10.3
Fair value of pension schemes assets	**(14.8)**	(8.5)
Retirement benefit obligations recognised in the balance sheet	**1.3**	1.8

3) The amounts recognised in the income statement in respect of the defined benefit pension schemes are as follows:

	2008 £m	2007 £m
Current service cost recognised in administrative expenses	**0.5**	0.5
Interest cost on pension schemes obligations recognised in interest payable	**0.8**	0.5
Expected return on pension schemes assets recognised in interest receivable	**(0.8)**	(0.5)
Total recognised in the income statement	**0.5**	0.5

Notes to the accounts (continued)

24 Retirement benefit obligations (continued)

4) Reconciliation of movement in net pension deficit:

	2008 £m	2007 £m
Opening balance	**(1.8)**	(1.5)
Total recognised in the income statement	**(0.5)**	(0.5)
Less contributions	**0.5**	0.5
Actuarial gain/(loss) recognised in equity	**0.5**	(0.3)
Closing balance	**(1.3)**	(1.8)

5) The amounts recognised directly in equity in respect of the defined benefit pension schemes are as follows:

	2008 £m	2007 £m
Actuarial loss on plan assets	**(1.5)**	(0.4)
Change in assumptions underlying present value of liabilities	**2.0**	0.1
Total	**0.5**	(0.3)
Cumulative total	**1.1**	0.6

6) Movements in the pension schemes obligations are as follows:

	2008 £m	2007 £m
Opening balance	**10.3**	9.7
Acquisition of subsidiary	**6.5**	–
Current service cost	**0.5**	0.5
Interest on pension schemes obligations	**0.8**	0.5
Actuarial gain recognised in equity	**(2.0)**	(0.1)
Benefits paid	**(0.1)**	(0.4)
Employee contributions	**0.1**	0.1
Closing balance	**16.1**	10.3

7) Movements in the fair value of the pension schemes assets are as follows:

		2008 £m		2007 £m
Opening balance		**8.5**		8.2
Acqusition of subsidiary		**6.5**		–
Expected return on pension schemes assets	**0.8**		0.5	
Actuarial loss recognised in equity	**(1.5)**		(0.4)	
Actual return on assets		**(0.7)**		0.1
Employer contributions		**0.5**		0.5
Employee contributions		**0.1**		0.1
Benefits paid		**(0.1)**		(0.4)
Closing balance		**14.8**		8.5

24 Retirement benefit obligations (continued)

8) The assets in the pension schemes and the expected rates of return are:

	2008			2007			2006		
	Long-term expected rate of return %	£m	Category of asset as a proportion of total %	Long-term expected rate of return %	£m	Category of asset as a proportion of total %	Long-term expected rate of return %	£m	Category of asset as a proportion of total %
Equities	**7.5**	**8.6**	**58.1**	7.5	6.4	75.3	7.0	6.2	75.6
Bonds	**5.5**	**2.5**	**16.9**	5.4	2.1	24.7	5.0	1.9	23.2
Cash	**5.0**	**0.1**	**0.7**	3.0	–	–	2.8	0.1	1.2
Annuity	**6.5**	**0.5**	**3.4**	–	–	–	–	–	–
Deferred annuity	**6.5**	**3.1**	**20.9**	–	–	–	–	–	–
Fair value of pension schemes assets		**14.8**	**100.0**		8.5	100.0		8.2	100.0
Present value of pension schemes obligations		**(16.1)**			(10.3)			(9.7)	
Retirement benefit obligations		**(1.3)**			(1.8)			(1.5)	
Related deferred tax asset		**0.5**			0.5			0.4	
		(0.8)			(1.3)			(1.1)	

The long-term return on equities is assumed to be 4.0% in excess of inflation (2007: 4.5%). The rate of return on bonds is assumed to be in line with the yield on AA-rated corporate bonds. The long-term return on cash is assumed to be in line with inflation.

9) History of experience gains and losses:

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Fair value of schemes assets	**14.8**	8.5	8.2	6.0	5.2
Present value of defined benefit obligations	**(16.1)**	(10.3)	(9.7)	(8.4)	(7.8)
Liability recognised in the balance sheet	**(1.3)**	(1.8)	(1.5)	(2.4)	(2.6)
Experience adjustments on pension schemes obligations	**(2.0)**	(0.1)	0.4	(0.3)	0.6
Percentage of pension schemes obligations (%)	**(12.4)**	(1.0)	4.1	(3.6)	7.7
Experience adjustments on pension schemes assets	**(1.5)**	(0.4)	1.3	(0.1)	0.4
Percentage of pension schemes assets (%)	**(10.1)**	(4.7)	15.9	(1.7)	7.7

Contributions of £0.6 million are expected to be paid into these pension schemes during 2008/09.

(b) Multi-employer scheme

The Group's Dutch subsidiary participates in a multi-employer run industry pension scheme which has arrangements similar to those of a defined benefit scheme. It is not possible to identify the Group's share of the underlying assets and liabilities of the scheme, and therefore in accordance with IAS 19, the Group has taken the exemption for multi-employer pension schemes not to disclose pension scheme assets and liabilities. Accordingly, although this scheme is a defined benefit scheme it is treated as a defined contribution scheme recognising the contributions payable in each period in the income statement. Under the terms of the scheme the scheme deficit is recovered through increased contributions from participating members. At the period end the Group was unable to obtain a valuation of the industry scheme's full surplus or deficit. Contributions charged to the income statement amounted to £0.7 million (2007: £0.6 million).

(ii) Defined contribution schemes

With effect from 31 March 2006 the Company closed a defined contribution pension scheme to further contributions. Contributions made up until that date by employees were matched by the Company to an upper limit. The assets of the pension scheme are held separately from those of the Company and are invested by the National Provident Institution. No Company contributions were made to this scheme in the current or previous period.

The Company launched a Group Personal Pension Plan ("GPP Plan") in April 2006. Contributions made by employees are matched by the Company to an upper limit. The assets of the scheme are held separately from those of the Company and are invested by Scottish Life. Contributions for the period amounted to £0.8 million (2007: £0.7 million).

In addition, the Group operates defined contribution pension schemes for subsidiary companies in Belgium and The Netherlands. The Group makes contributions into the schemes, the assets of which are held separately from those of the Group and are invested by local insurance companies. The contributions by the Group into individual company schemes for the period were a net charge of £nil (2007: £nil) and contributions to industry collective schemes were £0.1 million (2007: £0.1 million).

Notes to the accounts (continued)

25 Financial instruments

(i) Financial risk management objectives and policies

Risk management

The Group's principal financial instruments comprise derivatives, borrowings and overdrafts, cash and cash equivalents. These financial instruments are used to manage funding and liquidity requirements. Other financial instruments which arise directly from the Group's operations include trade receivables and payables.

Exposure to credit, liquidity, foreign currency exchange and interest rate risks arise in the normal course of the Group's business operations and each of these risks are managed in accordance with the Group's treasury risk management strategy, which is also discussed in the Business Review in the section Capital Structure and Treasury Policy.

(a) Credit risk

The Group does not have significant concentrations of credit risk as exposure is spread over a number of counterparties and customers.

The Group is exposed to a small amount of credit risk that is primarily attributable to its trade and other receivables, the majority of which relates to retail customers (see Note 17). Retail customers are required to settle outstanding balances in cash or using a major credit card prior to goods being collected from/delivered by the store.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with a minimum AA credit rating. The maximum amount of credit risk is represented by the carrying amounts of financial assets.

(b) Liquidity risk

The Group finances its operations from a mix of retained profits and bank borrowings achieved through term loans, revolving credit agreements and overdraft facilities. Daily cash balances are forecast and surplus cash is placed on treasury deposit with the Group's bankers at commercial rates. All counterparties have an investment graded rating. There are a number of covenants which commit the Group to maintaining certain rates of operating cash flow to fixed charge cover, and interest and capital repayments cover.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest

	Less than one year £m	Between one and two years £m	Between two and five years £m	Over five years £m	Total £m
Group					
At 3 May 2008					
Interest bearing loans and borrowings	**22.4**	**4.5**	**33.4**	**1.4**	**61.7**
Finance leases	**0.8**	**0.9**	**0.3**	**2.7**	**4.7**
Trade and other payables	**99.4**	**–**	**–**	**–**	**99.4**
	122.6	**5.4**	**33.7**	**4.1**	**165.8**
At 28 April 2007					
Interest bearing loans and borrowings	12.2	3.8	5.6	1.6	23.2
Finance leases	0.8	0.8	1.1	1.8	4.5
Trade and other payables	93.1	–	–	–	93.1
	106.1	4.6	6.7	3.4	120.8
Company					
At 3 May 2008					
Interest bearing loans and borrowings	**11.5**	**3.1**	**32.0**	**–**	**46.6**
Finance leases	**0.8**	**0.9**	**0.3**	**1.7**	**3.7**
Trade and other payables	**84.1**	**–**	**–**	**–**	**84.1**
	96.4	**4.0**	**32.3**	**1.7**	**134.4**
At 28 April 2007					
Interest bearing loans and borrowings	6.9	–	–	–	6.9
Finance leases	0.8	0.8	1.1	1.8	4.5
Trade and other payables	80.9	–	–	–	80.9
	88.6	0.8	1.1	1.8	92.3

Committed overdraft facilities are renewable annually and amounts undrawn were £26.5 million and €10.6 million (2007: £35.0 million and €13.6 million). During the year the Company entered into a five year £30.0 million revolving credit facility in the UK expiring in March 2013.

This facility had an undrawn amount of £5.0 million (2007: £nil).

25 Financial instruments (continued)

(c) Foreign exchange risk

Outside the UK the Group operates in the Republic of Ireland, The Netherlands, Belgium, Poland and Germany. Revenues and expenses of these operations are denominated in Euros or Zlotys. The Group's investment in Poland is currently not material. The Group mitigates currency risk in respect of the net investment in European operations by designating Euro denominated borrowings as hedging instruments of Euro denominated investments in foreign operations.

If the closing Sterling-Euro rate had been 0.01 points lower in the period the exchange difference reported in the SORIE would have been £0.2 million lower (2007: £0.1 million lower). At 3 May 2008 if Sterling had weakened/strengthened by 1% against the Euro post tax profit for the year would have been £0.1 million higher/lower as a result of the translation of the Euro denominated businesses.

If the closing Sterling-Zloty rate had been 0.1 points lower in the period the exchange difference reported in the SORIE would have been £0.1 million lower (2007: £nil).

Financial assets and liabilities and foreign operations are translated at the following rates of exchange:

	Euro 2008	Euro 2007	**Zloty 2008**	Zloty 2007
Average rate	**1.40**	1.48	**5.25**	5.77
Closing rate	**1.28**	1.47	**4.42**	5.54

(d) Interest rate risk

The Group has various borrowings bearing interest at a margin over LIBOR or EURIBOR rates. Interest rate risk is managed by purchasing interest rate swap agreements to hedge at least 75% of permanent borrowings. The remaining 25% is liable to interest at prevailing interest rates.

In accordance with IFRS 7, the Group has undertaken sensitivity analysis on its financial instruments which are affected by changes in interest rates. This analysis has been prepared on the basis of a constant amount of net debt, a constant ratio of fixed to floating interest rates, and on the basis of hedging instruments in place at 3 May 2008 and 28 April 2007 respectively. Consequently analysis relates to the situation at those dates and is not representative of the years then ended. The following assumptions were made:

- balance sheet sensitivity to interest rates applies only to derivative financial instruments, as the carrying value of debt and deposits does not change as interest rates move;
- gains or losses are recognised in equity or the income statement in line with the accounting policies set out in Note 1;
- cash flow hedges were effective.

Based on the Group's net debt position at the year end a 1% change in interest rates would affect the Group's profit before tax by approximately £0.1 million (2007: £0.1 million).

The interest rate profile of the financial assets and liabilities of the Group, after the impact of interest rate swaps is as follows:

	2008					2007				
	Weighted average effective interest rate %	**Floating rate £m**	**Fixed rate £m**	**Interest free £m**	**Total £m**	Weighted average effective interest rate %	Floating rate £m	Fixed rate £m	Interest free £m	Total £m
Sterling	**–**	**–**	**–**	**8.1**	**8.1**	3.4	11.6	–	7.3	18.9
Euro	**0.5**	**8.6**	**–**	**4.5**	**13.1**	0.4	8.8	0.1	3.4	12.3
Zloty	**–**	**0.2**	**–**	**–**	**0.2**	0.5	0.3	–	–	0.3
Total financial assets		**8.8**	**–**	**12.6**	**21.4**		20.7	0.1	10.7	31.5
Sterling	**1.4**	**31.4**	**4.7**	**86.8**	**122.9**	0.9	0.3	4.5	80.8	85.6
Euro	**3.2**	**11.1**	**19.2**	**12.1**	**42.4**	2.4	6.9	16.0	11.8	34.7
Zloty	**–**	**–**	**–**	**0.5**	**0.5**	–	–	–	0.5	0.5
Total financial liabilities		**42.5**	**23.9**	**99.4**	**165.8**		7.2	20.5	93.1	120.8

Capital management

The Group aims to maximise shareholder value by maintaining an appropriate debt/equity capital structure. It uses a number of mechanisms to manage debt equity levels, as appropriate, in the light of economic and trading conditions and the future capital investment requirements of the business, including share buy back to return funds to shareholders.

Notes to the accounts (continued)

25 Financial instruments (continued)

(ii) Fair value of financial assets and liabilities

Financial assets and liabilities are classified in accordance with IAS 39. Financial instruments have not been reclassified or derecognised in the period. There are no financial assets which have been pledged or held as collateral. None of the Group's loans are impaired. In addition the Group does not have any financial assets or liabilities measured at fair value through the income statement other than derivatives. There are no available-for-sale financial assets.

The fair values of financial assets and liabilities, together with their carrying amounts are:

	Group 2008		Group 2007		Company 2008		Company 2007	
	Nominal value £m	Carrying and fair value £m	Nominal value £m	Carrying and fair value £m	Nominal value £m	Carrying and fair value £m	Nominal value £m	Carrying and fair value £m
At cost:								
Cash and cash equivalents	–	8.9	–	20.7	–	3.2	–	2.4
Loans and receivables at amortised cost:								
Trade and other receivables	–	12.5	–	10.7	–	56.4	–	44.7
Derivative financial instruments:								
Interest rate swaps	19.1	–	16.0	0.1	19.1	–	16.0	0.1
Total financial assets	19.1	21.4	16.0	31.5	19.1	59.6	16.0	47.2
Financial liabilities at amortised cost:								
Borrowings and overdrafts	–	(61.7)	–	(23.2)	–	(46.6)	–	(6.9)
Finance lease obligations	–	(4.7)	–	(4.5)	–	(3.7)	–	(4.5)
Financial liabilities at cost:								
Trade and other payables	–	(99.4)	–	(93.1)	–	(84.1)	–	(80.9)
Total financial liabilities	–	(165.8)	–	(120.8)	–	(134.4)	–	(92.3)
Net financial liabilities	19.1	(144.4)	16.0	(89.3)	19.1	(74.8)	16.0	(45.1)

Determination of fair values

The fair values of derivatives are estimated using future cash flows discounted at risk-adjusted discount rates based on market yield curves. The carrying values of all other financial assets and liabilities are deemed to reflect fair value.

(iii) Derivative financial instruments

The Group has various Euro and Sterling-denominated borrowings which bear interest at floating rates. Interest on the Sterling borrowing is charged at LIBOR plus a margin. The Euro-denominated borrowings bear interest at the prevailing EURIBOR rate plus a margin. Interest rate swaps were purchased to fix at least 75% of the floating interest charges due within the next three years at fixed rates of interest ranging from 3.19% to 4.55% (2007: 2.66% to 4.66%). The maturity profiles of the interest rate swaps match that of the underlying hedged borrowings.

Derivative financial instruments are not purchased for speculative purposes.

	2008		2007	
Non-current assets	Group £m	Company £m	Group £m	Company £m
Interest rate swaps – cash flow hedges	–	–	0.1	0.1

25 Financial instruments (continued)

(iv) Hedge accounting

(a) Cash flow hedges
Interest rate swaps denominated in Euros and Sterling have been executed to hedge the Group's exposure to changes in floating interest rates in respect of at least 75% of the Group's permanent borrowings. Hedge documentation is put in place at inception of all hedging relationships. Effectiveness tests are performed at each reporting date.

Interest rate swaps are measured at fair value under IAS 39. Changes in fair value are posted to equity in respect of the portion of the hedges which satisfy the criteria to be effective hedges. Charges or credits relating to the portion which does not satisfy these criteria are recognised directly in the income statement.

Cash flows in respect of the interest rate swaps are expected to occur at the same dates as the cash flows of the underlying hedged items.

(b) Net investment hedges
Euro-denominated borrowings are designated as hedging instruments of Euro-denominated net assets of the Group's foreign operations in order to protect the Group from currency risk in respect of the Group's Euro-denominated foreign operations. Borrowing balances are carried at amortised cost which approximates fair value since borrowings bear interest at the prevailing floating rate. The carrying value of borrowings amounted to €13.2 million (2007: €9.7 million).

26 Share capital

Ordinary shares of one penny each	**2008 £**	2007 £
Authorised – 100,000,000 (2007: 100,000,000)	**1,000,000**	1,000,000

	Number of allotted, called up and fully paid Ordinary shares Millions	Share capital £m	Share premium £m	Treasury shares £m	Total £m
At 29 April 2006	67.9	0.7	14.8	(0.1)	15.4
Purchase of own shares by employee share trust	–	–	–	(0.4)	(0.4)
At 28 April 2007	67.9	0.7	14.8	(0.5)	15.0
Purchase and cancellation of own shares	**(0.7)**	**–**	**–**	**–**	**–**
Issue of Ordinary shares on acquisition of Storey Carpets Ltd	**–**	**–**	**0.5**	**–**	**0.5**
Issue of Ordinary share capital to satisfy share option scheme exercises	**–**	**–**	**0.1**	**–**	**0.1**
Transfer of Treasury shares to participants	**–**	**–**	**–**	**0.3**	**0.3**
At 3 May 2008	**67.2**	**0.7**	**15.4**	**(0.2)**	**15.9**

The Group's LTIP Trust was established to grant Executive Directors the contingent right to shares. Such grants are made on recommendation by the Group's Remuneration Committee. As required by IAS 32 grants of such shares are classified as Treasury shares and accordingly are deducted from total equity attributable to equity holders of the parent. These shares are held at historical cost until they are used to satisfy the LTIP awards. They are disclosed within the Treasury share reserve. The assets, liabilities, income and costs of the LTIP and Trust are included in both the Company and the consolidated financial statements. At the year end the Trust held 21,543 (2007: 43,575) Ordinary shares of one penny each with a market value of £0.2 million (2007: £0.5 million).

The Group also operates a share option scheme under which shares are issued to satisfy share option awards that are exercised.

During the period the Group purchased 750,000 Ordinary shares of one penny each for a total amount of £6.5 million. These shares have been cancelled.

Notes to the accounts (continued)

27 Other reserves

Non-distributable reserves

(i) Treasury shares
Treasury shares represent a reserve which comprises the cost of Company shares purchased in the market to satisfy the Group's LTIP awards.

(ii) Capital redemption reserve
The par value of cancelled shares is transferred to the capital redemption reserve to comply with capital maintenance provisions.

(iii) Translation reserve
The translation reserve includes cumulative net exchange differences on translation into Sterling of balances and transactions denominated in currencies other than Sterling.

(iv) Hedging reserve
Post-tax fair value movements relating to effective hedging instruments are recognised in the hedging reserve.

Distributable reserves

(i) Retained earnings
This reserve comprises cumulative results from the income statement, and cumulative movements recognised directly in equity that are not already recognised in another reserve account.

Group

	Note	Capital redemption reserve £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
At 29 April 2006		0.1	0.6	0.2	39.7	40.6
Actuarial loss on defined benefit pension scheme	24(i)(a)(5)	–	–	–	(0.3)	(0.3)
Exchange difference in respect of hedged equity investments		–	(0.3)	–	–	(0.3)
Tax on items taken directly to or transferred from equity	8(iii)	–	–	–	0.1	0.1
Profit for the financial period		–	–	–	46.3	46.3
Total recognised income and expense for the financial period		–	(0.3)	–	46.1	45.8
Share-based payments net of tax		–	–	–	0.5	0.5
Dividend paid to Company shareholders	9	–	–	–	(33.9)	(33.9)
At 28 April 2007		0.1	0.3	0.2	52.4	53.0
Actuarial gain on defined benefit pension schemes	24(i)(a)(5)	–	–	–	0.5	0.5
Exchange difference in respect of hedged equity investments		–	4.4	–	–	4.4
Tax on items taken directly to or transferred from equity	8(iii)	–	–	–	(0.1)	(0.1)
Fair value losses in respect of cash flow hedges		–	–	(0.2)	–	(0.2)
Profit for the financial period		–	–	–	42.8	42.8
Total recognised income and expense for the financial period		**–**	**4.4**	**(0.2)**	**43.2**	**47.4**
Transfer of Treasury shares to participants		–	–	–	(0.3)	(0.3)
Purchase of own shares for cancellation		–	–	–	(6.5)	(6.5)
Dividend paid to Company shareholders	9	–	–	–	(35.2)	(35.2)
At 3 May 2008		**0.1**	**4.7**	**–**	**53.6**	**58.4**

27 Other reserves (continued)

Company

	Note	Capital redemption reserve £m	Translation reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
At 29 April 2006		0.1	–	0.2	48.2	48.5
Actuarial loss on defined benefit pension scheme	24(i)(a)(5)	–	–	–	(0.3)	(0.3)
Exchange difference in respect of hedged equity investments		–	(0.3)	–	–	(0.3)
Tax on items taken directly to or transferred from equity		–	–	–	0.1	0.1
Profit for the financial period		–	–	–	43.1	43.1
Total recognised income and expense for the financial period		–	(0.3)	–	42.9	42.6
Share-based payments net of tax		–	–	–	0.5	0.5
Dividend paid to Company shareholders	9	–	–	–	(33.9)	(33.9)
At 28 April 2007		0.1	(0.3)	0.2	57.7	57.7
Actuarial gain on defined benefit pension schemes	24(i)(a)(5)	–	–	–	0.5	0.5
Exchange difference in respect of hedged equity investments		–	2.8	–	–	2.8
Tax on items taken directly to or transferred from equity		–	–	–	(0.1)	(0.1)
Fair value losses in respect of cash flow hedges		–	–	(0.2)	–	(0.2)
Profit for the financial period		–	–	–	37.8	37.8
Total recognised income and expense for the financial period		**–**	**2.8**	**(0.2)**	**38.2**	**40.8**
Transfer of Treasury shares to participants		–	–	–	(0.3)	(0.3)
Purchase of own shares for cancellation		–	–	–	(6.5)	(6.5)
Dividend paid to Company shareholders	9	–	–	–	(35.2)	(35.2)
At 3 May 2008		**0.1**	**2.5**	**–**	**53.9**	**56.5**

Notes to the accounts (continued)

28 Statement of changes in shareholders' equity

Group

	Share capital (Note 26) £m	Share premium (Note 26) £m	Treasury shares (Note 26) £m	Other reserves (Note 27) £m	Total £m
At 29 April 2006	0.7	14.8	(0.1)	40.6	56.0
Actuarial loss on defined benefit pension scheme	–	–	–	(0.3)	(0.3)
Exchange difference in respect of hedged equity investments	–	–	–	(0.3)	(0.3)
Tax on items taken directly to or transferred from equity	–	–	–	0.1	0.1
Profit for the financial period	–	–	–	46.3	46.3
Total recognised income and expense for the financial period	–	–	–	45.8	45.8
Purchase of own shares by employee share trust	–	–	(0.4)	–	(0.4)
Share-based payments net of tax	–	–	–	0.5	0.5
Dividend paid to Company shareholders	–	–	–	(33.9)	(33.9)
At 28 April 2007	0.7	14.8	(0.5)	53.0	68.0
Actuarial gain on defined benefit pension schemes	–	–	–	0.5	0.5
Exchange difference in respect of hedged equity investments	–	–	–	4.4	4.4
Tax on items taken directly to or transferred from equity	–	–	–	(0.1)	(0.1)
Fair value losses in respect of cash flow hedges	–	–	–	(0.2)	(0.2)
Profit for the financial period	–	–	–	42.8	42.8
Total recognised income and expense for the financial period	**–**	**–**	**–**	**47.4**	**47.4**
Transfer of Treasury shares to participants	–	–	0.3	(0.3)	–
Purchase and cancellation of own shares	–	–	–	(6.5)	(6.5)
Issue of Ordinary shares on acquisition of Storey Carpets Ltd	–	0.5	–	–	0.5
Issue of Ordinary share capital to satisfy share option scheme exercises	–	0.1	–	–	0.1
Dividend paid to Company shareholders	–	–	–	(35.2)	(35.2)
At 3 May 2008	**0.7**	**15.4**	**(0.2)**	**58.4**	**74.3**

28 Statement of changes in shareholders' equity (continued)

Company

	Share capital (Note 26) £m	Share premium (Note 26) £m	Treasury shares (Note 26) £m	Other reserves (Note 27) £m	Total £m
At 29 April 2006	0.7	14.8	(0.1)	48.5	63.9
Actuarial loss on defined benefit pension scheme	–	–	–	(0.3)	(0.3)
Exchange difference in respect of hedged equity investments	–	–	–	(0.3)	(0.3)
Tax on items taken directly to or transferred from equity	–	–	–	0.1	0.1
Profit for the financial period	–	–	–	43.1	43.1
Total recognised income and expense for the financial period	–	–	–	42.6	42.6
Purchase of own shares by employee share trust	–	–	(0.4)	–	(0.4)
Share-based payments net of tax	–	–	–	0.5	0.5
Dividend paid to Company shareholders	–	–	–	(33.9)	(33.9)
At 28 April 2007	0.7	14.8	(0.5)	57.7	72.7
Actuarial gain on defined benefit pension schemes	–	–	–	0.5	0.5
Exchange difference in respect of hedged equity investments	–	–	–	2.8	2.8
Tax on items taken directly to or transferred from equity	–	–	–	(0.1)	(0.1)
Fair value losses in respect of cash flow hedges	–	–	–	(0.2)	(0.2)
Profit for the financial period	–	–	–	37.8	37.8
Total recognised income and expense for the financial period	**–**	**–**	**–**	**40.8**	**40.8**
Transfer of Treasury shares to participants	–	–	0.3	(0.3)	–
Purchase and cancellation of own shares	–	–	–	(6.5)	(6.5)
Issue of Ordinary shares on acquisition of Storey Carpets Ltd	–	0.5	–	–	0.5
Issue of Ordinary share capital to satisfy share option scheme exercises	–	0.1	–	–	0.1
Dividend paid to Company shareholders	–	–	–	(35.2)	(35.2)
At 3 May 2008	**0.7**	**15.4**	**(0.2)**	**56.5**	**72.4**

29 Capital and other financial commitments

Capital commitments at 3 May 2008 for which no provision has been made in the accounts relate to the acquisition of tangible and intangible assets, and are:

	Group 2008 £m	Group 2007 £m	**Company 2008 £m**	Company 2007 £m
Authorised and contracted:	**9.1**	13.6	**8.8**	12.6

There was no capital committed to the joint venture at either of the balance sheet dates.

Notes to the accounts (continued)

30 Operating lease commitments

At 3 May 2008 the future minimum lease payments in respect of land and buildings and other assets under operating leases are:

Group

	2008		2007	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases payable:				
Amounts payable within one year	**81.9**	**0.8**	62.7	1.3
Amounts payable between one and five years	**303.0**	**2.0**	255.0	3.4
Amounts payable after five years	**593.2**	**–**	529.0	0.3
	978.1	**2.8**	846.7	5.0

Company

	2008		2007	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases payable:				
Amounts payable within one year	**73.8**	**0.5**	62.4	1.3
Amounts payable between one and five years	**284.8**	**2.0**	243.7	3.0
Amounts payable after five years	**582.4**	**–**	522.3	0.3
	941.0	**2.5**	828.4	4.6

Operating lease payments are negotiated for an average of 11 years (2007: 13 years). The Group enters into sublease agreements in respect of some of its operating leases for stores. At the reporting date the Group had contracted with tenants for future minimum operating sublease receipts amounting to £19.0 million (2007: £20.4 million).

31 Contingent liabilities

The Group's contingent liabilities are related party transactions which are disclosed in Note 34.

32 Acquisition of subsidiaries

On 1 May 2007, the Group acquired 100% of the issued share capital of Storey Carpets Ltd (Storeys). The initial consideration paid comprised £18.0 million cash and £0.5 million of shares in Carpetright plc. Deferred consideration of £0.7 million was payable on 5 May 2008. Storeys' principal activity is the retailing of carpet and other floor coverings. The transaction has been accounted for in accordance with IFRS 3 Business Combinations.

Brand values were assessed as part of the acquisition fair value but were immaterial. No brand value has been recognised in the cost of the investment.

From the date of acquisition to 3 May 2008, the acquisition contributed £29.8 million to revenue and £1.3 million to profit before tax and £2.0 million in cash flow. There is no material difference between the amounts included in these accounts and the amount that would have been recognised had the acquisition been made at the start of the financial year.

Details of net assets acquired and goodwill are as follows:

	£m
Purchase consideration:	
Cash paid	**18.0**
Deferred consideration	**0.7**
Value of shares issued	**0.5**
Direct costs relating to the acquisition	**0.5**
Total purchase consideration	**19.7**
Fair value of net identifiable assets acquired	**(4.4)**
Goodwill	**15.3**

The goodwill is attributable to the significant synergies expected to arise after acquisition by the Group.

Part of the consideration for the acquisition comprised 47,529 shares in Carpetright plc with a value of £0.5 million. The number of shares issued was determined using the market price of the shares on the date the acquisition was concluded.

32 Acquisition of subsidiaries (continued)

The assets and liabilities arising from the acquisition together with their fair values are as follows:

	Acquiree's carrying amount before business combination £m	Accounting policy alignment £m	Fair value adjustments £m	**Fair value £m**
Net assets acquired:				
Property, plant and equipment	3.0	–	3.5	**6.5**
Inventories	3.3	–	(0.4)	**2.9**
Trade and other receivables	2.9	(0.6)	(0.1)	**2.2**
Cash and cash equivalents	1.4	–	–	**1.4**
Trade and other payables	(6.8)	–	(0.4)	**(7.2)**
Tax assets	0.2	–	–	**0.2**
Deferred tax liabilities	–	–	(0.7)	**(0.7)**
Other provisions	–	–	(0.9)	**(0.9)**
Net identifiable assets acquired	4.0	(0.6)	1.0	**4.4**

Outflow of cash to acquire business, net of cash acquired

	£m
Total purchase consideration	**19.7**
Satisfied by the issue of shares	**(0.5)**
Deferred consideration	**(0.7)**
Cash and cash equivalents acquired	**(1.4)**
Cash flow on acquisition of shares in subsidiary net of cash acquired	**17.1**

On 31 March 2008, the Group acquired 100% of the issued share capital of Melford Commercial Properties Ltd. The initial consideration paid comprised £7.2 million cash, subject to a working capital adjustment which is anticipated to return £0.6 million. The principal activity of the group acquired is the retailing of carpet and other floor coverings. The transaction has been accounted for in accordance with IFRS 3 Business Combinations.

Brand values were assessed as part of the acquisition fair value but were immaterial. No brand value has been recognised in the cost of the investment.

From the date of acquisition to 3 May 2008, the acquisition contributed £0.3 million to turnover, £0.2 million loss before tax and £nil in the cash flow. Had the acquisition been made at the beginning of the financial year the amounts included in these accounts would have been £11.6 million in turnover, £2.4 million in loss before tax and £1.2 million cash outflow.

Provisional details of net assets acquired and goodwill are as follows:

	£m
Purchase consideration:	
Cash paid	**7.2**
Net asset adjustment to be received	**(0.6)**
Direct costs relating to the acquisition	**0.6**
Total purchase consideration	**7.2**
Fair value of net identifiable assets acquired	**(0.6)**
Goodwill	**6.6**

The goodwill is attributable to the significant synergies expected to arise after acquisition by the Group.

Notes to the accounts (continued)

32 Acquisition of subsidiaries (continued)

The assets and liabilities arising from the acquisition together with their provisional fair values are as follows:

	Acquiree's carrying amount before business combination £m	Accounting policy alignment £m	Fair value adjustments £m	Fair value £m
Net assets acquired:				
Property, plant and equipment	12.8	–	–	**12.8**
Inventories	0.8	–	–	**0.8**
Trade and other receivables	0.4	–	–	**0.4**
Trade and other payables	(2.0)	–	–	**(2.0)**
Tax liability	(0.4)	–	–	**(0.4)**
Bank loans and overdrafts	(7.8)	–	–	**(7.8)**
Finance leases	–	(1.0)	–	**(1.0)**
Deferred tax asset/(liability)	0.5	(2.2)	(0.5)	**(2.2)**
Net identifiable assets acquired	4.3	(3.2)	(0.5)	**0.6**

Outflow of cash to acquire business net of borrowings repaid

	£m
Total purchase consideration	**7.2**
Accrued acquisition costs	**(0.4)**
Net asset adjustment to be received	**0.6**
Bank loans and overdrafts repaid	**7.7**
Cash flow on acquisition of shares in subsidiary net of borrowings repaid	**15.1**

33 Movement in cash and net borrowings

Group

	2007	2008				
	Total £m	Cash flow £m	Acquisitions £m	Exchange differences £m	Revaluation £m	Total £m
Cash and cash equivalents per the balance sheet	20.7	**(11.8)**	**–**	**–**	**–**	**8.9**
Bank overdrafts	(1.5)	**(9.1)**	**–**	**(0.5)**	**–**	**(11.1)**
Cash and cash equivalents per the cash flow statement	19.2	**(20.9)**	**–**	**(0.5)**	**–**	**(2.2)**
Borrowings:						
Borrowings (current)	(10.7)	**(0.6)**	**–**	**–**	**–**	**(11.3)**
Borrowings (non-current)	(11.0)	**(24.5)**	**–**	**(3.8)**	**–**	**(39.3)**
Obligation under finance leases:						
Obligation under finance leases (current)	(0.8)	**–**	**–**	**–**	**–**	**(0.8)**
Obligation under finance leases (non-current)	(3.7)	**0.8**	**(1.0)**	**–**	**–**	**(3.9)**
Derivative financial instruments	0.1	**–**	**–**	**–**	**(0.1)**	**–**
Net borrowings	(6.9)	**(45.2)**	**(1.0)**	**(4.3)**	**(0.1)**	**(57.5)**

33 Movement in cash and net borrowings (continued)

Group

	2006 Total £m	Cash flow £m	Acquisitions £m	Exchange differences £m	Revaluation £m	2007 Total £m
Cash and cash equivalents per the balance sheet	9.3	11.3	–	0.1	–	20.7
Bank overdrafts	(2.5)	0.8	–	0.2	–	(1.5)
Cash and cash equivalents per the cash flow statement	6.8	12.1	–	0.3	–	19.2
Borrowings:						
Borrowings (current)	(10.8)	0.1	–	–	–	(10.7)
Borrowings (non-current)	(20.0)	8.7	–	0.3	–	(11.0)
Obligation under finance leases:						
Obligation under finance leases (current)	(0.8)	–	–	–	–	(0.8)
Obligation under finance leases (non-current)	(4.4)	0.7	–	–	–	(3.7)
Derivative financial instruments	0.1	–	–	–	–	0.1
Net borrowings	(29.1)	21.6	–	0.6	–	(6.9)

Company

	2007 Total £m	**Cash flow £m**	**Acquisitions £m**	**Exchange differences £m**	**Revaluation £m**	**2008 Total £m**
Cash and cash equivalents per the balance sheet	14.7	**(11.2)**	**–**	**(0.3)**	**–**	**3.2**
Bank overdrafts	–	**(8.0)**	**–**	**(0.5)**	**–**	**(8.5)**
Cash and cash equivalents per the cash flow statement	14.7	**(19.2)**	**–**	**(0.8)**	**–**	**(5.3)**
Borrowings:						
Borrowings (current)	(6.9)	**3.9**	**–**	**–**	**–**	**(3.0)**
Borrowings (non-current)	–	**(33.2)**	**–**	**(1.9)**	**–**	**(35.1)**
Obligation under finance leases:						
Obligation under finance leases (current)	(0.8)	**–**	**–**	**–**	**–**	**(0.8)**
Obligation under finance leases (non-current)	(3.7)	**0.8**	**–**	**–**	**–**	**(2.9)**
Derivative financial instruments	0.1	**–**	**–**	**–**	**(0.1)**	**–**
Net borrowings	3.4	**(47.7)**	**–**	**(2.7)**	**(0.1)**	**(47.1)**

Notes to the accounts (continued)

33 Movement in cash and net borrowings (continued)

Company

	2006					2007
	Total £m	Cash flow £m	Acquisitions £m	Exchange differences £m	Revaluation £m	Total £m
Cash and cash equivalents per the balance sheet	7.5	7.3	–	(0.1)	–	14.7
Bank overdrafts	(0.1)	0.1	–	–	–	–
Cash and cash equivalents per the cash flow statement	7.4	7.4	–	(0.1)	–	14.7
Borrowings:						
Borrowings (current)	(7.1)	0.1	–	0.1	–	(6.9)
Borrowings (non-current)	(5.2)	5.2	–	–	–	–
Obligation under finance leases:						
Obligation under finance leases (current)	(0.8)	–	–	–	–	(0.8)
Obligation under finance leases (non-current)	(4.4)	0.7	–	–	–	(3.7)
Derivative financial instruments	0.1	–	–	–	–	0.1
Net borrowings	(10.0)	13.4	–	–	–	3.4

34 Related parties

Group

Related party transactions with the Directors are disclosed in the Directors' Report on pages 15 and 16.

Share-based payment transactions which include transactions with key management are disclosed in Note 4 and 5.

Contributions to pension schemes are disclosed in Note 24. Costs incurred by the Group to administer pension schemes amounted to less than £0.1 million in both 2007 and 2008.

There have been no transactions with the joint venture other than the initial investment in shares.

Company

The following table provides the total amount of transactions and year-end balances with related parties for the relevant financial year.

	Sales of goods £m	Amounts due from related parties £m	Amounts due to related parties £m
Subsidiary undertakings			
2007/08	**3.3**	**48.7**	**–**
2006/07	**3.1**	**37.4**	**–**

The Company guaranteed bank and other borrowings of subsidiary undertakings amounting to £10.9 million (2007: £11.2 million).

35 Events after the balance sheet date

On 1 April 2008 the Group announced that its subsidiary in The Netherlands had agreed to purchase the trade and assets of Ben de Graaff Tapijt a retailer of floor coverings and curtains/blinds based in the south of The Netherlands. The purchase completed on 30 June 2008 for an initial consideration of €4.0 million with a further €3.8 million, subject to working capital values, payable on 1 October 2008. As information only became available to us the day these financial statements were approved we are unable to provide the full disclosures required under IFRS 3. Full details will be provided in the 2008/09 interim statement.

Five year summary

The date of transition to IFRS was 2 May 2004. The figures presented for the period ended 1 May 2004 were prepared under UK GAAP. The figures presented for 2005 to 2008 are prepared in compliance with IFRS effective at the period end as adopted by the EU.

	IFRS 2008 £m	IFRS 2007 £m	IFRS 2006 restated £m	IFRS 2005[1] £m	UK GAAP 2004 £m
Summarised income statements					
Revenue	**521.5**	475.9	451.4	462.5	452.7
Gross profit	**323.1**	290.8	270.6	273.0	269.9
Operating profit before profit on property disposals, non-recurring items and goodwill amortisation[2]	**63.4**	59.5	58.7	63.4	66.6
Operating profit	**60.8**	68.8	66.2	74.4	65.8
Profit before tax	**59.5**	67.0	64.2	72.5	67.1
Tax on ordinary activities	**(16.7)**	(20.7)	(20.1)	(23.2)	(18.2)
Profit for the financial period	**42.8**	46.3	44.1	49.3	49.1
Extracts from balance sheets					
Non-current assets	**253.9**	184.9	180.4	157.8	145.7
Net borrowings excluding obligation under finance leases	**(52.8)**	(2.4)	(23.9)	(35.7)	(30.0)
Net assets	**74.3**	68.0	56.0	40.9	40.3
Ratios and statistics					
Basic earnings per share (pence)	**63.2**	68.2	65.0	71.0	68.8
Dividends per share (pence)	**52.0**	50.0	49.0	47.0	44.0
Gross margin (%)	**62.0**	61.1	59.9	59.0	59.6
Operating margin before profits on property disposals and goodwill amortisation (%)[2]	**12.2**	12.5	13.0	13.7	14.7
Operating margin (%)	**11.7**	14.5	14.7	16.1	14.5
Number of stores at period end	**675**	621	538	492	490
Total space (sq ft – gross) '000	**5,816**	5,397	5,027	4,761	4,708

(1) 2005 has been restated following the adoption of IFRS. The 2005 figures were reported under UK GAAP in the 2005 annual report.
(2) Goodwill is not amortised under IFRS and as such goodwill amortisation does not affect the figures reported in 2005 to 2008.

Calendar

2008	
Q1 interim management statement	5 August
Annual General Meeting	10 September
Pre close first half trading update	28 October
First half ends	1 November
Interim results announcement	16 December

2009	
Q3 interim management statement	3 February
Pre close second half trading update	28 April
Year ends	2 May

Store portfolio

	May 2008		April 2007	
	Stores	Space knsf	Stores	Space knsf
UK & RoI				
Carpetright*	**460**	**3,963**	439	3,930
Concessions	**61**	**121**	73	154
Storeys	**38**	**387**	–	–
	559	**4,471**	512	4,084
Rest of Europe**				
The Netherlands	**77**	**895**	75	903
Belgium	**28**	**335**	28	347
Poland	**11**	**115**	6	63
	116	**1,345**	109	1,313
Group	**675**	**5,816**	621	5,397

* Includes Carpetworld stores.
** Excludes one trial store under joint venture arrangement in Germany.

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